

Pass cards

ACCA Paper F1  
Accountant in Business



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Welcome to BPP Learning Media's new syllabus ACCA **Passcards for Fundamentals Paper F1 Accountant in Business**.

- They **focus on your exam** and **save you time**.
- They incorporate **diagrams** to kick start your memory.
- They follow the overall **structure** of BPP Learning Media's Study Texts, but BPP Learning Media's ACCA **Passcards** are not just a condensed book. Each card has been separately designed for clear presentation. Topics are self contained and can be grasped visually.
- ACCA **Passcards** are still **just the right size** for pockets, briefcases and bags.

Run through the **Passcards** as often as you can during your final revision period. The day before the exam, try to go through the **Passcards** again! You will then be well on your way to passing your exams.

**Good luck!**

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# 1: Business organisation and structure

## Topic List

---

Types of organisation

---

Organisational structure

---

Levels of strategy in the organisation

---

Organisational departments &  
functions

---

Centralisation & decentralisation

---

Committees

---

*This chapter identifies the different types of organisation and the various influences upon its structure: hierarchy, strategy, departmentation and centralisation.*

*Committees are also considered – they are one of the main mechanisms for organisational consultation and communication.*

Types of  
organisation

Organisational  
structure

Levels of strategy  
in the organisation

Organisational  
departments & functions

Centralisation &  
decentralisation

Committees

## Organisation

‘A social arrangement which pursues collective goals, which controls its own performance and which has a boundary separating it from its environment.’

They enable people to be more

### **PRODUCTIVE:**

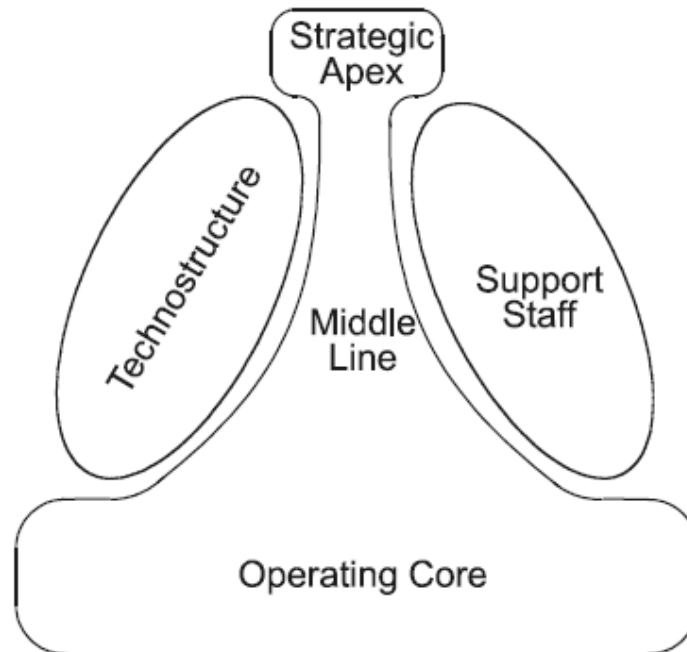
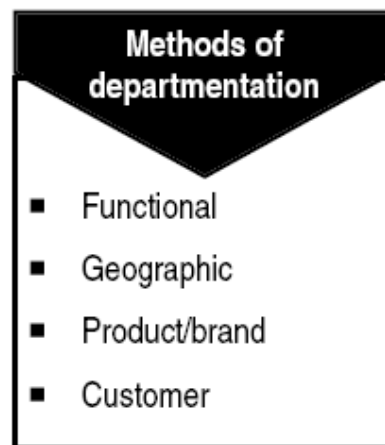
Overcoming individual limitations  
Saving time  
Accumulating and sharing knowledge  
Enabling synergy  
Enabling specialisation

### **Points of difference**

- Ownership – public or private sector
- Control – owners, workers or government
- Activities
- Profit orientation – or not
- Legal status – limited company/partnership
- Size – small or multinational
- Sources of finance
- Technology usage

Other organisation types to consider are co-operative societies, mutual associations and non-governmental organisations (NGOs).

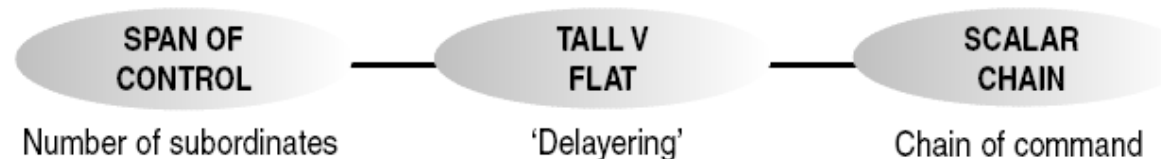
Mintzberg believes that all organisations can be analysed into five components.



## Further structural concepts

- 1 Divisionalisation: Business divided into autonomous regions or businesses (subsidiary company, profit centre, investment centre or SBU). This serves to focus the attention of management on maintaining a profitable performance.
- 2 Hybrid structure: Mix of departmentation types, ensuring specialised attention to key functions.
- 3 Simple/entrepreneurial structures: Characteristics of small, young organisations.
- 4 Matrix and project organisation: Crossing functional boundaries.
- 5 Shamrock organisation: increased use of temporary and part-time staff to supplement the core workforce.

Remember too:





Types of  
organisation

Organisational  
structure

**Levels of strategy  
in the organisation**

Organisational  
departments & functions

Centralisation &  
decentralisation

Committees

Levels of strategy

CORPORATE STRATEGY

What businesses are we (or want to be) in?

How do we enter or exit?

BUSINESS  
STRATEGY

BUSINESS  
STRATEGY

BUSINESS  
STRATEGY

Strategies relevant to a particular area

Strategic  
Business  
Unit (SBU)

SBU

SBU

Types of  
organisation

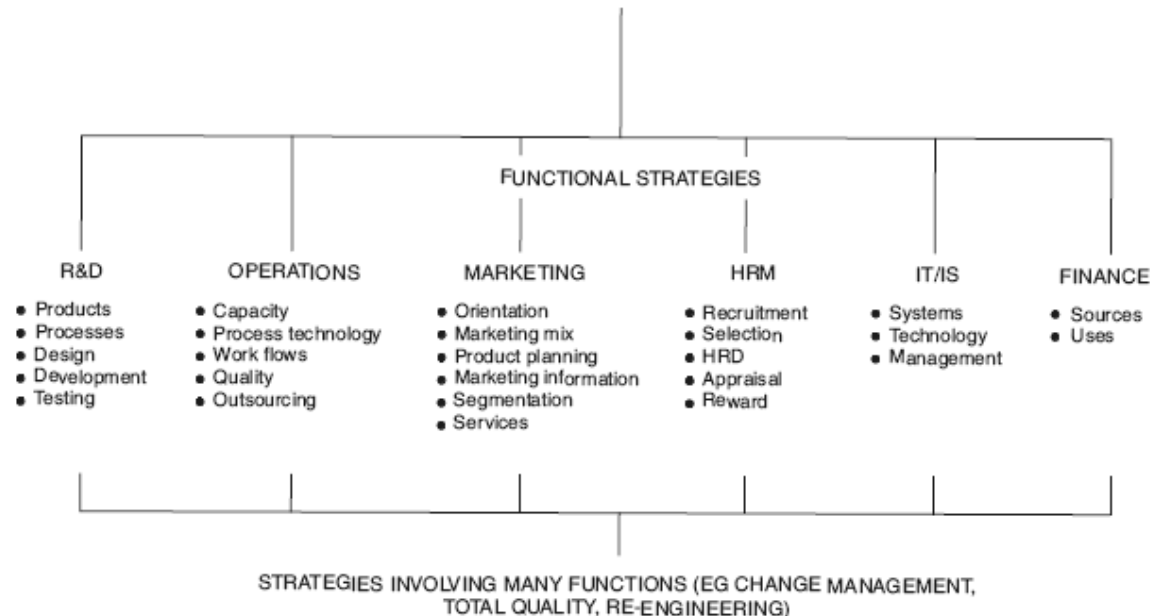
Organisational  
structure

**Levels of strategy  
in the organisation**

Organisational  
departments & functions

Centralisation &  
decentralisation

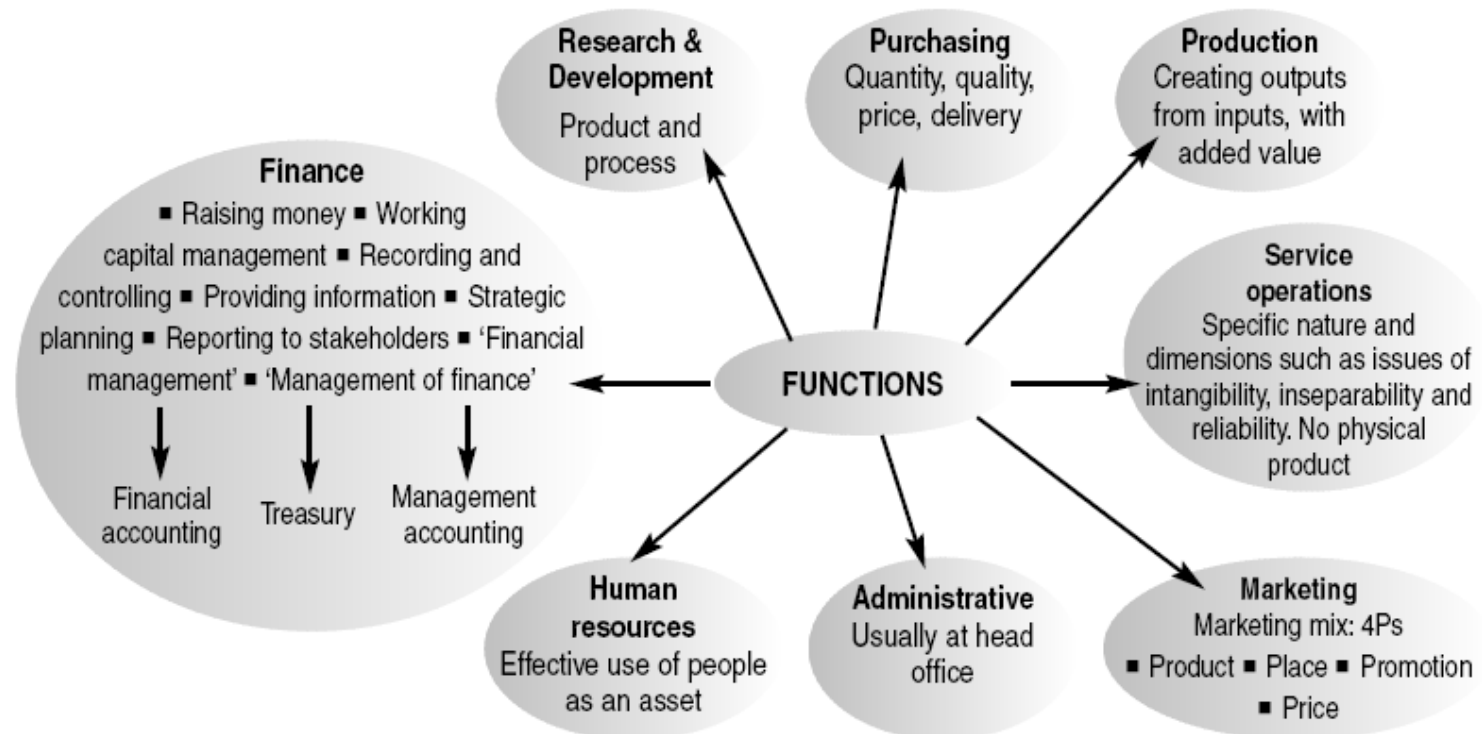
Committees



This diagram reflects the Anthony hierarchy

- strategic management (ie corporate) – ‘direction setting’
- tactical management (business)
- operational management (functional)

} ‘day to day management’



A centralised organisation is one in which authority is concentrated in one place.

#### **Advantages of centralisation**

- Easy co-ordination of decisions
- Wider view can be taken
- Different interests can be balanced
- Quality of decisions higher (in theory)
- Cheaper to run
- Crisis decisions taken quickly
- Standardised policies and procedures

#### **Advantages of decentralisation**

- Avoids heavy workloads
- Improves motivation of junior managers
- Greater awareness of local issues
- Greater speed of decision-making
- Develops the skills of junior managers
- Controls and direct accountability are clearer
- Use of communication technology allows local decision making, with HO input if required

Committees are a key part of organisational communication processes.

### Purpose

- New ideas
- Communication
- Participation and problem-solving
- Combining abilities
- Co-ordination
- Representation of interests
- Giving advice
- Recommendations

Supported by

The Committee Chair and Secretary

### Types

- Executive
- Standing
- Ad hoc
- Sub-committees
- Joint committees
- Management committees

#### Committees work best when

There are well defined areas of authority  
 The Chair is an effective leader  
 The committee itself is not too large  
 The members have the necessary experience

### Possible disadvantages

- Too large sometimes
- Time consuming
- Expensive
- Compromises made

The Secretary circulates minutes and action points  
 The benefits justify the cost  
 There is plenty of time to make decisions

## 2: Information technology and systems

### Topic List

---

Information systems

---

Sources of information

---

Database systems

---

Information systems security

---

*Information is now far more than a simple record of organisational transactions. It occupies a central and strategic role. A range of systems has been created to support decision making, using information drawn from a range of sources.*

## Information

Data that has been processed in such a way as to be meaningful to the person who receives it.

Organisations need information to support the distinction between STRATEGIC, TACTICAL and OPERATIONAL decision making.

### Purposes

- Planning
- Controlling
- Recording transactions
- Performance measurement
- Decision making

### Qualities of good information

- A ccurate
- C omplete
- C ost-beneficial
- U ser-targeted
- R elevant
- A uthoritative
- T imely
- E asy to use

### Types of system

- Executive Support
- Management Information
- Decision Support
- Expert
- Knowledge-Work
- Office Automation
- Transaction Processing

Organisations are also using INTRANETS and EXTRANETS to collect and disseminate information.

To capture data and information, procedures need to set out: What is collected? How frequently? By whom? How? How is it processed and communicated?

### Internal information

- Accounting records, eg sales, purchases
- Payroll system
- Production department
- Cost accountants
- Timesheets
- Staff themselves

### External information

- Tax law
- Health and safety
- Employment law
- R&D in the industry
- Marketing research

Informal gathering of information will often support more formal processes – eg from newspapers, meetings, TV. The phrase **environmental scanning** is often used to describe the process of gathering external information.



Information  
systems

Sources of  
information

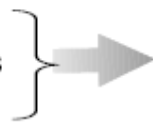
**Database  
systems**

Information  
systems security

The term 'database system' is used to describe a wide range of systems that utilise a central pool of data.

**Characteristics:**

Shared  
Different users' needs  
Capable of evolving



**Using a database:**

Create the structure  
Enter/amend/update data

Retrieve/manipulate the data  
Produce reports



Information is a valuable resource, and is protected by



### 3: Influences on organisational culture

#### Topic List

---

Organisation culture

---

Culture and structure

---

The informal organisation

---

Stakeholders goals & objectives

---

*The concept of culture is important when thinking about how organisations work. Organisation culture is, broadly, the distinctive way an organisation does things. Particular structures suit particular cultures, and these are reinforced by informal networks.*

*Another influence on the organisation is exerted by stakeholders. Different stakeholder groups all require an appropriate management response.*

## Organisation culture

Organisation culture is the complex body of shared beliefs, attitudes and values in an organisation.

### Aspects of culture

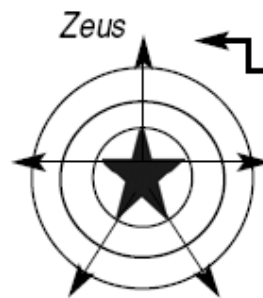
- *Beliefs and values*
- *Customs*: norms, acceptable ways of behaving, 'unwritten rules'
- *Artefacts*: buildings, decor, dress rules, display of 'trophyes', style of relationships, types of people employed
- *Rituals*: formal repeated behaviours, ceremonies, celebrations
- *Symbols*: signs of status and success, corporate logos, badges of identity and so on

- Underlying attitudes to (for example):
  - The customer, quality
  - Risk, learning, mistakes
  - Work, the organisation, management
- Overtly expressed beliefs (slogans, mottos, standing jokes and so on)

### To create or change a culture

- Model desired behaviours/attitudes from the top
- Express desired values (eg in mottos, literature)
- Practise leadership: create an inspiring vision
- Recruit and select people who will fit the new culture
- Appraise, reward and promote according to cultural criteria: encourage people to 'buy in or get out'
- Symbolise the values in visible expressions of 'style'

Charles Handy ('Gods of management'): four 'ideal' cultural types (after Roger Harrison)

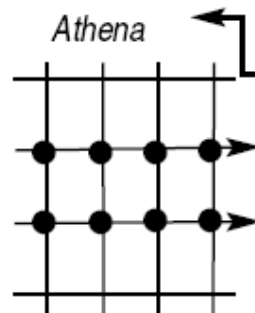
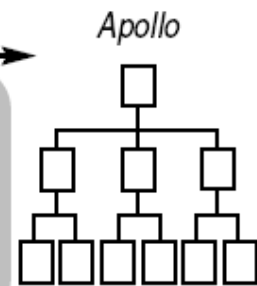


### Power culture

The organisation is controlled by a key central figure, owner or founder. Power is direct, personal, informal. Suits small organisations where people get on well.

### Role culture

Classical, rational organisation: bureaucracy. Stable, slow-changing, formalised, impersonal. Authority based on position and function.

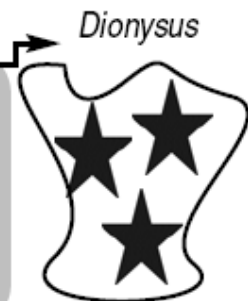


### Task culture

Management is directed at outputs: problems solved, projects completed. Team-based, horizontally-structured, flexible, valuing expertise - to get the job done.

### Person culture

The purpose of the organisation is to serve the interests of the individuals who make it up: management is directed at facilitating, administering.



Organisation  
culture

Culture and  
structure

The informal  
organisation

Stakeholder goals  
& objectives

It is possible for different cultures to prevail within the same organisation, so a CONTINGENCY APPROACH is often required.

Handy matched his cultural types with Anthony's classification of managerial activity:

- Strategic management → direction setting → power culture
- Tactical management → mobilising resources → task culture
- Operational management → routine activities → role culture

The Hofstede model describes four main dimensions of difference between national cultures.



Power distance

Uncertainty avoidance

Individuality vs  
collectivity

Masculinity vs  
femininity

The informal organisation exists alongside the formal one. It is loosely structured, flexible and spontaneous, with constantly fluctuating membership and relationships.

## Aspects of the informal organisation

- Relationships, social networks and cliques
- Informal ways of doing things, customs etc.
- *Informal channels of communication via networks*

- + Satisfying to members
- Can distract energy/attention from task objectives
- + Can cut through red-tape, inefficiency
- Can 'cut corners' → safety, quality risks
- + Can by pass lengthy channels, communication blockages
- + Wider sharing of information/ideas for problem-solving
- Inaccuracy may undermine management communication

## The 'grapevine'

The 'grapevine' or 'bush telegraph' is the informal information network. It is typically very *fast* and *inaccurate*, circulating gossip and rumour. It exists even where the formal communication system of the organisation is adequate.

Managers can harness the power of the informal organisation by: ■ gathering information from it ■ using it to disseminate information ■ encouraging positive goals for networking (eg problem-solving or innovation)

Organisation  
culture

Culture and  
structure

The informal  
organisation

Stakeholder goals  
& objectives

## Stakeholders

Those individuals or groups that have an interest in what the organisation does.



Each of these groups has its own particular interests to defend, such as:

JOB (employees)

LOAN SECURITY (financiers)

TAX REVENUES (governments)

} Conflict can be common



Mendelow suggests that stakeholders may be positioned on a matrix.

		LEVEL OF INTEREST	
		Low	High
POWER	Low	A	B
	High	C	D

- Key players are to be found in segment D
- Those in segment C should be kept satisfied
- Those in segment B should be kept informed
- Minimal effort should be expended on segment A

## 4: Ethical considerations

### Topic List

---

A framework of rules

---

Management accountability

---

The ethical environment

---

Ethics in organisations

---

Accountants and ethics

---

*Ethics has an increased focus in the F1 syllabus. Organisations are embedded in society and must respond to public concerns about ethical behaviour and social responsibility. The ACCA has its own ethical code for members.*

**A framework  
of rules**

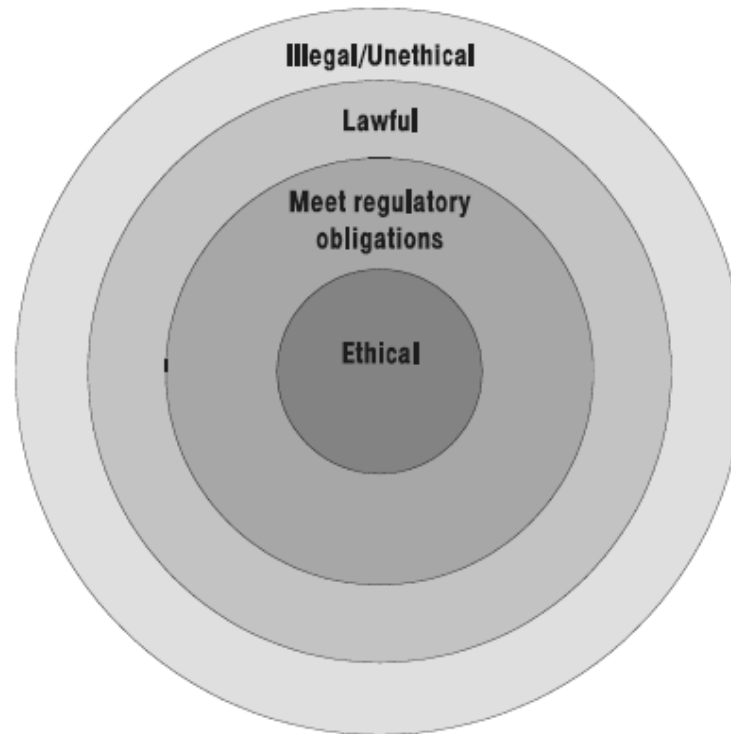
**Management  
accountability**

**The ethical  
environment**

**Ethics in  
organisations**

**Accountants  
and ethics**

Behaviour in society is required by the law,  
rules and regulations, and ethics.



An organisation's managers are collectively responsible for the conduct of an organisation's affairs: they have a **FIDUCIARY RESPONSIBILITY** (duty of faithful service).

How far do external pressures modify business objectives?

**Stakeholder view:** a business depends upon appropriate relationships with all groups who have an interest in what the organisation does

Different levels of objectives (Ansoff)

- 1 Primary economic objective
- 2 Non-economic, social objectives
- 3 Responsibilities (eg charity donations)
- 4 Boundaries (eg health and safety legislation)

A framework  
of rules

Management  
accountability

**The ethical  
environment**

Ethics in  
organisations

Accountants  
and ethics

- 1 Ethics can be regarded as a set of moral principles to guide behaviour, based upon concepts of **DUTY** and **CONSEQUENCES**

absolute  
moral  
rules

outcomes:  
'the end justifies  
the means'

- 2 Other considerations are based upon **RIGHTS** to be respected, and **VIRTUES** to be cultivated: firmness, fairness, objectivity, charity, forethought, loyalty ...

- 3 **SOCIAL ATTITUDES** are also significant: work/life balance; 'green' concerns; minorities

Translated into business objectives:

#### **Employees**

- Minimum wage
- Job security/satisfaction
- Working conditions

#### **Customers**

- Product quality
- Pricing
- Safety

#### **Suppliers**

- Regular orders
- Timely payment

#### **Society**

- Pollution control
- Sustainability
- Charity work
- Product quality

A framework  
of rules

Management  
accountability

The ethical  
environment

**Ethics in  
organisations**

Accountants  
and ethics

Organisations will have either a COMPLIANCE-BASED, or INTEGRITY-BASED, approach.

#### **Other influences**

- Personal ethics of employees
- Professional ethics (eg ACCA)
- Organisational culture
- Organisational systems (eg mission statements)

A framework  
of rules

Management  
accountability

The ethical  
environment

Ethics in  
organisations

Accountants  
and ethics

### Why should accountants behave ethically?

- Laws and regulation
- Upholding of professional standards and qualities (personal/professional)
- Protection of the public interest

Enshrined in a 'Code of Ethics' or 'Code of Conduct'

Rules-based  
based to  
every possible  
situation

or

Principles and  
frameworks to  
guide behaviour

### The accountant:

IFAC – international body with its own code of ethics. ACCA's is aligned:

F  
u  
n  
d  
a  
m  
e  
n  
t  
a  
l  
s

- Integrity
- Objectivity
- Professional competence
- Confidentiality
- Professional behaviour

via: reliability, responsibility, timeliness, courtesy, respect

## 5: Corporate governance and social responsibility

### Topic List

---

Principles of corporate governance

---

Developments in corporate governance

---

Role of the board

---

Governance reporting and corporate social responsibility

---

Ethics, law, governance and social responsibility

---

*This chapter covers the main areas of corporate governance, the role of the board in communicating with shareholders and corporate social responsibility.*



Principles of  
corporate governance

Developments in  
corporate governance

Role of  
the board

Governance reporting &  
corporate social responsibility

Ethics, law, governance  
& social responsibility

There are different views associated with the ownership and management of organisations:

**STEWARDSHIP  
THEORY**

↓  
managers are stewards of  
the assets

**AGENCY  
THEORY**

↓  
managers seek to look after  
their own interests

**STAKEHOLDER  
THEORY**

↓  
management has a duty of  
care to stakeholders

**Governance principles**

- Minimise risk via compliance
- Adherence to strategic objectives
- Fulfil stakeholder responsibilities
- Establish clear accountability
- Maintain independence
- Accurate/timely reporting
- Encourage owner involvement
- Promote integrity

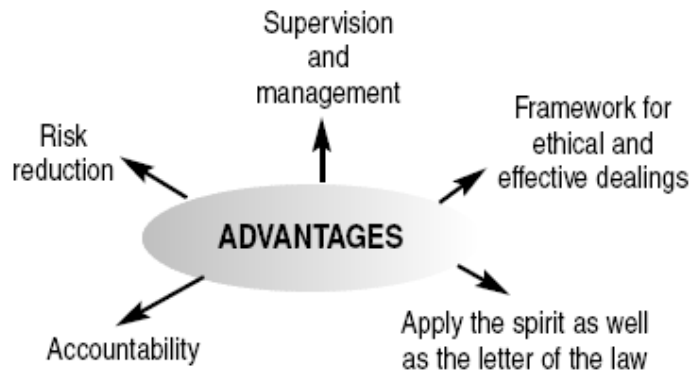
Balance required:

CORPORATE  
GOVERNANCE  
'CONFORMANCE'

vs

STRATEGIC  
'PERFORMANCE'

Corporate governance is the system by which organisations are directed and controlled by senior officers.



**Backed up by:** Accounting standards  
Codes of professional conduct  
Commissions on standards of behaviour

### Driving forces

- Internationalisation/globalisation
- Treatment of investors
- Financial reporting issues
- Cultural significance
- High profile scandals

### Features of poor corporate governance

- Domination by a single individual
- Lack of involvement of board
- Lack of adequate control function
- Lack of supervision
- Lack of independent scrutiny
- Lack of contact with shareholders
- Emphasis on short term profitability
- Misleading accounts and information



### Reports

- UK – Combined code  
Turnbull  
Smith  
Higgs
- USA – Sarbanes-Oxley  
2002 (Public  
oversight board)
- South Africa – King

If the board is to act effectively, its role must be defined carefully.

### Role of the board

- Responsible for taking major **policy** and **strategic** decisions
- Mix of skills and relevant **expertise**
- Regular **performance assessment** and increased **accountability**
- Formal procedures administered by a **nomination committee**
- Balance between executive management and independent **non-executive directors**
- Role of Chair and chief executive to be held by **two different people** (*not* mandatory in the UK)
- Remuneration set by a **remuneration committee**
- **Regular review** of risk management and internal control
- **Audit committees** to liaise with external audit and review accounts/controls

Annual reports must convey a fair and balanced view of the organisation, stating whether the organisation has complied with governance regulations and codes:

- Narrative statement on how principles have been applied
- Statement on compliance throughout accounting period

#### **Strategies for social responsibility**

- |  |  |
|--|--|
| ■ Proactive – full responsibility              | ■ Defence – minimising or avoiding obligations           |
| ■ Reactive – unresolved until others find out! | ■ Accommodation – taking responsibility, when encouraged |

## Summary

Corporate governance requirements and social responsibility may be seen as additional rules and guidance for companies and individuals. They bridge the gap between what the law requires and what society expects.

Principles of  
corporate governance

Developments in  
corporate governance

Role of  
the board

Governance reporting &  
corporate social responsibility

**Ethics, law, governance  
& social responsibility**

The relationship between law, governance, social responsibility and ethics			
Law	Corporate governance	Social responsibility	Ethics
Rules individuals and companies <b>must follow</b> .  The <b>minimum level of behaviour</b> society allows.	<b>Publicly listed companies only</b> are regulated. Others are <b>encouraged</b> to follow 'best practice'.	<b>No regulation</b> . Individuals and companies have a free choice. <b>Some social pressure</b> to act in a socially responsible manner.	<b>Values and principles</b> . Individuals and companies are <b>expected to follow</b> . Adopting an ethical position is down to free choice.
More regulation, less freedom of choice.		Less regulation, more freedom of choice.	

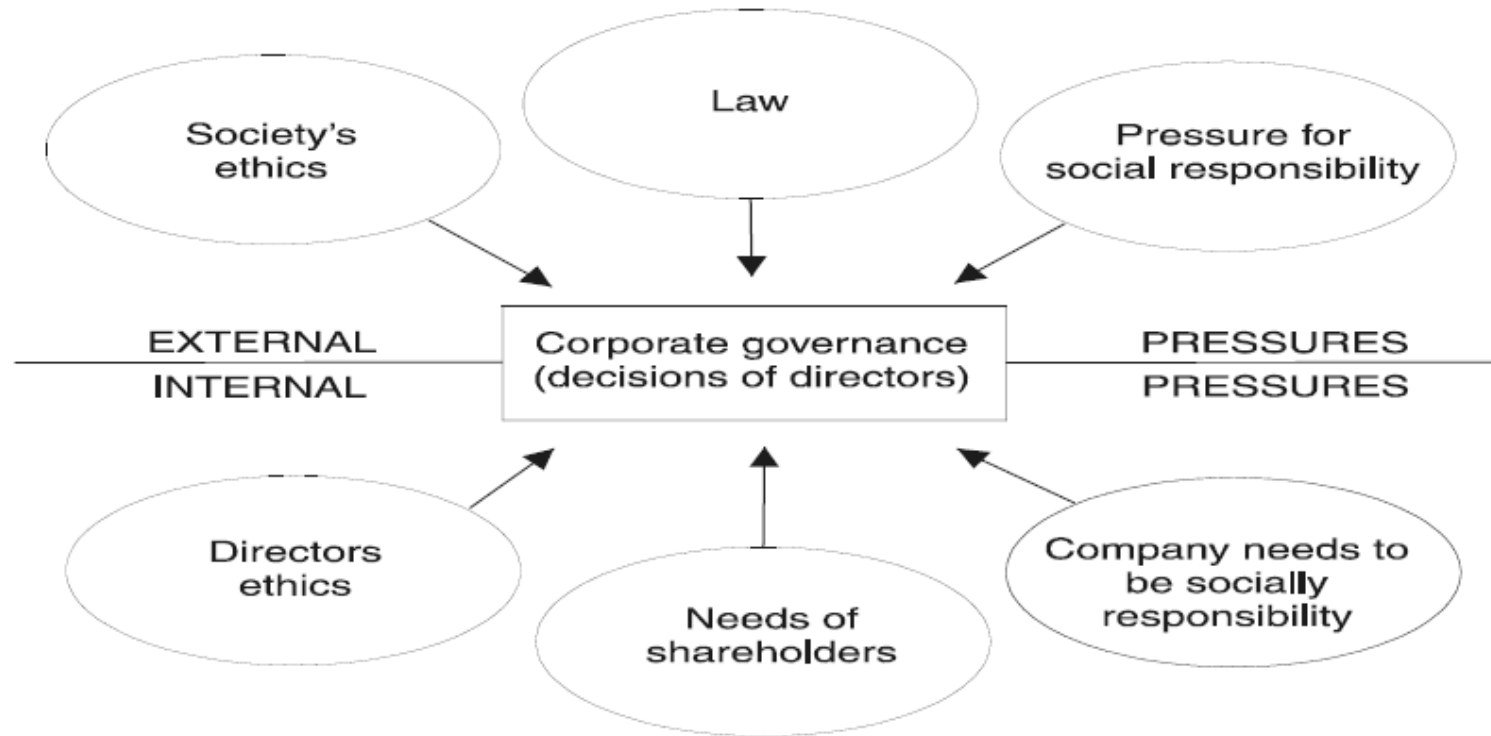
Principles of  
corporate governance

Developments in  
corporate governance

Role of  
the board

Governance reporting &  
corporate social responsibility

Ethics, law, governance  
& social responsibility



## 6: The macro-economic environment

### Topic List

---

Government policies and objectives

---

The business cycle

---

National income and economic growth

---

Inflation and unemployment

---

Fiscal and monetary policy

---

The balance of payments

---

*Macroeconomics is a branch of economics which considers the economy as a whole.*

*This chapter presents an overview of the goals of macroeconomic policy. Macroeconomic policy objectives relate to economic growth, inflation, unemployment and the balance of payments, looking at the complete national economy.*



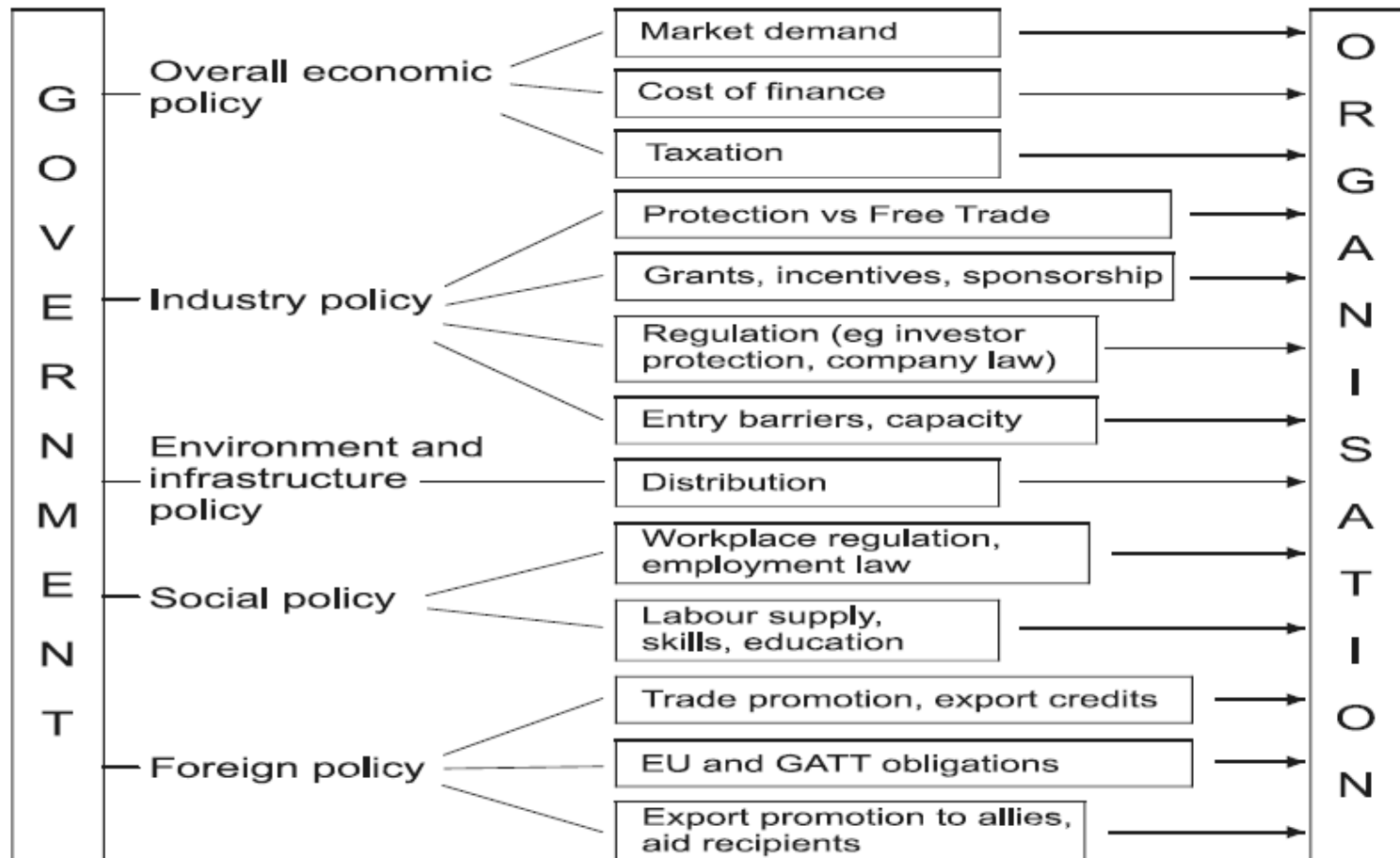
All modern governments are expected to manage their national economies to some extent.

### Objectives of economic policy

- To achieve economic growth – an increase in national income
- To control price inflation
- To achieve full employment
- To achieve a balance between exports and imports (known as the balance of payments)

### Government influences over company decisions

Decision	Comment
Output capacity	Grants or tax incentives to invest
Competition	<ul style="list-style-type: none"><li>■ Forbid or allow takeovers/mergers</li><li>■ Outlaw anti-competitive practices</li><li>■ Opening markets to new entrants (eg gas)</li></ul>
Monopolies	Break them up; regulate them
Sales demand	Government policy affects demand
Health and safety	Legislation, regulations
Employment	Equal opportunities legislation
Consumers	Product safety standards
Tax	Sales tax procedures, income tax, accounting control



Government policies  
and objectives

**The business  
cycle**

National income  
and economic growth

Inflation and  
unemployment

Fiscal and  
monetary policy

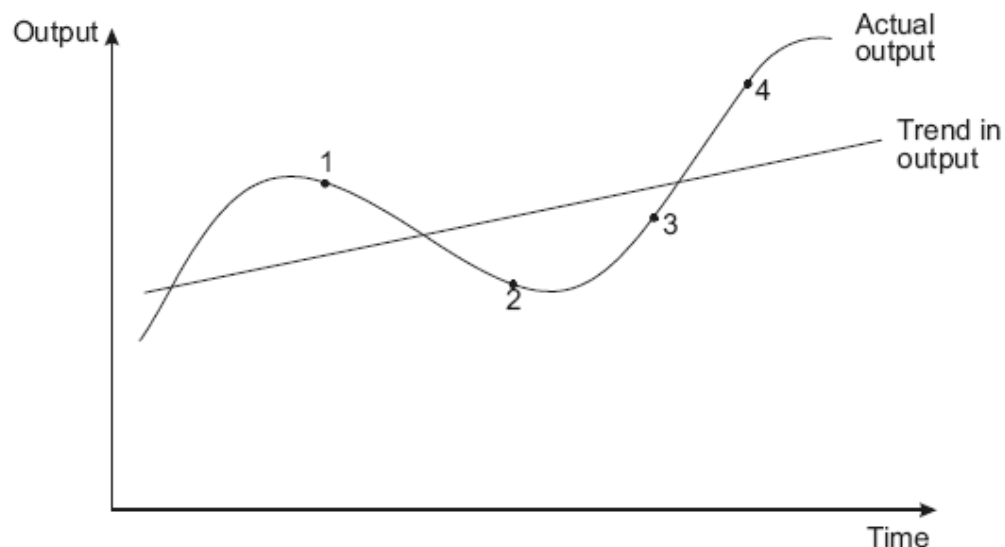
The balance of  
payments

The business cycle is the continual sequence of rapid growth in national income, followed by a slow-down in growth and then a fall in national income. After this recession comes growth again, which peaks, followed again by recession ...

### Four main phases

- 1 Recession
- 2 Depression
- 3 Recovery
- 4 Boom

↓  
Governments will seek to stabilise  
the system and avoid wide  
fluctuations



## Equilibrium national income

This is where the demand for goods and services is in balance with the available supply, and demand is exactly sufficient to encourage firms to produce at the level of output where resources are fully employed.

## Inflationary gap

Occurs when resources are already fully employed, so that any increase in demand will only serve to increase prices.

## Deflationary gap

Occurs when there is unemployment of resources, so that any change in demand will affect output. Prices are fairly constant, but actual national income is below full employment national income.

## Stagflation

A combination of high unemployment and high inflation.

Government policies  
and objectives

The business  
cycle

**National income  
and economic growth**

Inflation and  
unemployment

Fiscal and  
monetary policy

The balance of  
payments

- Economic growth can be measured by increases in the real gross national product (GNP) per head of the population
- Actual economic growth is the annual % increase in national output, which typically fluctuates with the trade cycle

↙  
Growth in potential  
output (capacity)

↘  
Growth in demand

These should move in step, but they will depend on:



#### Factors

- New investment
- Natural resources
- Labour
- Capital
- Technological progress
- Terms of international trade

#### Advantages of growth

- Higher income per head
- Better standard of living
- High levels of consumption
- Welfare provision

#### Disadvantages of growth

- Use of natural resources
- Creation of pollution
- Structural unemployment
- Needs higher levels of saving to be able to invest more → cut in consumption

Inflation is the name given to an increase in price levels.

### Causes

- Demand pull factors
- Cost push factors
- Import cost factors
- Expectations create it
- Increase in the money supply

### Why is it a problem?

- Redistribution of income and wealth
- Balance of payments effects
- Uncertainty of the value of money
- Price uncertainty
- Resource cost of changing prices
- Harmful to growth and investment

Goods and services are grouped into a single price index in order to measure how the real value of money is changing. Based upon a chosen basket of items, the resulting *consumer price index* can be used for various purposes.

- RPI
- RPIX (excluding mortgage payments)
- CPI
- RPIY (excluding sales tax as well)

Government policies  
and objectives

The business  
cycle

National income  
and economic growth

**Inflation and  
unemployment**

Fiscal and  
monetary policy

The balance of  
payments

The rate of unemployment can be calculated as:

$$\frac{\text{Number of unemployed}}{\text{Total workforce}} \times 100\%$$

### Consequences

- Loss of output
- Loss of human capital
- Inequalities in income distribution
- Social costs
- Increased burden of welfare payments

### Government options

- Spend money directly on jobs
- Encouraging private sector growth
- Encouraging training
- Offering grant assistance
- Encouraging labour mobility
- Restricting trade union negotiating strength
- Abolishing minimum wage regulations

### Categories

- Real wage unemployment
  - Frictional \* – ‘matching’ period
  - Seasonal \* – yearly patterns
  - Structural – changed industry conditions
  - Technological – skills, redundancy
  - Cyclical – following the trade cycle
- \* short-term only

Fiscal policy aims to manage aggregate demand in the economy. (Aggregate demand is the total demand for goods and services in the economy.)

Exercised through

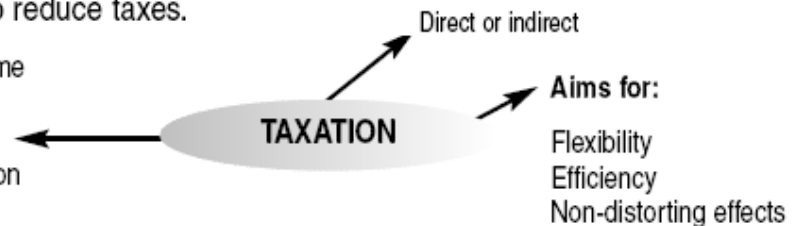
- A** EXPENDITURE planning
- B** REVENUE raising (especially taxation)
- C** BORROWING when **A** exceeds **B** ('PSNCR' in the UK)

## Options

- 1** Increase expenditure and reduce taxes = stimulated demand, higher PSNCR
- 2** Reduce expenditure and increase taxes = reduced demand, reduced PSNCR
- 3** Increase expenditure and finance with higher taxes
- 4** Reduce expenditure and use these savings to reduce taxes.

- Revenue raiser
- Discourages certain activities
- To cover social costs of some products

- Redistribute income and wealth
- Protection from foreign Competition
- Stabilising effect





Government policies  
and objectives

The business  
cycle

National income  
and economic growth

Inflation and  
unemployment

**Fiscal and  
monetary policy**

The balance of  
payments

Monetary policy uses money supply, interest rates, exchange rates or credit controls to influence aggregate demand and control inflation (reducing economic uncertainty, stimulating investment and output).

### **Money supply**

- Increase in money supply will raise prices and incomes

### **Interest rates**

- 'The price of money'
- Assumes a relationship between interest rates and expenditure
- Effective and rapid mechanism

### **Exchange rates**

- Affects price of a country's exports
- Depends upon domestic rate of inflation and interest rates

### **Credit controls**

- Restrictions on bank lending to reduce demand

The UK balance of payments consists of the following elements

C	A	}	■ Trade in goods ('balance of trade')
U	C		■ Trade in services
R	C		■ Income from overseas investment/employment
R	O		■ Transfers (payments/receipts to/from overseas bodies such as the EU)
E	U		■ Capital account, eg public sector capital flows; loans
N	N		■ Financial account, eg investment in overseas facilities
T	T		

The deficit or surplus on the current account is often referred to as the 'balance of payments', even though it is not the full picture.

#### Rectify via:

- Devaluing the currency
- Restrict imports, eg via tariffs
- Domestic deflation to reduce demand

#### DEFICIT

Importing more than it is exporting



Higher borrowings from abroad  
Selling assets, eg shares

#### SURPLUS

Exporting more than importing



Invest abroad  
Add to official reserves

## 7: The business environment

### Topic List

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Analysing the environment

---

Employment protection

---

Health & safety protection

---

Data protection

---

Social, cultural and technological trends

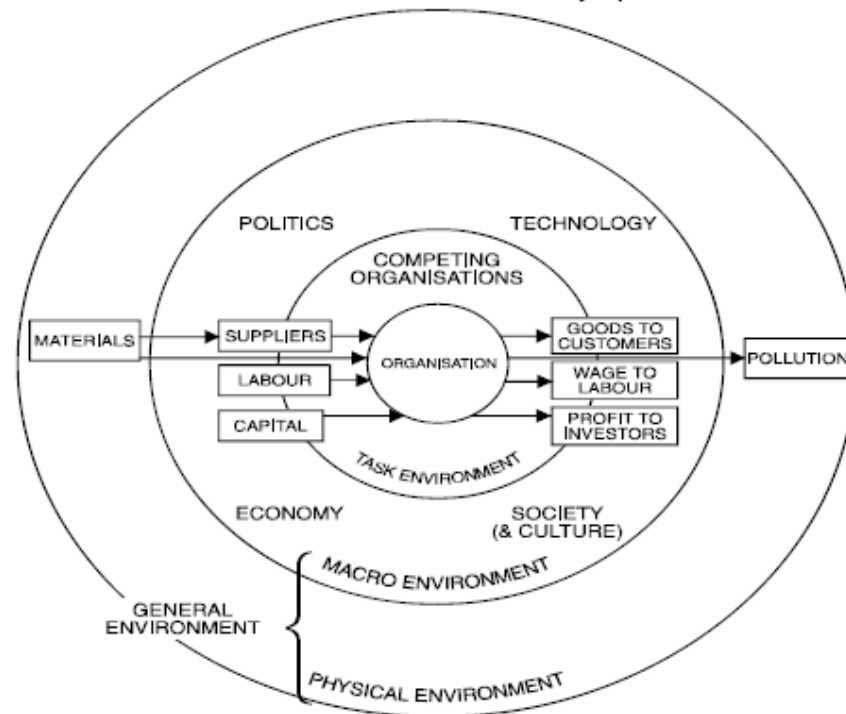
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Porter

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*An organisation has many interactions with its environment, and general environmental trends can be usefully summarised in the PEST model. The PEST model is here drawn out into its component parts, and the chapter concludes with the competitive forces which can shape the organisation, and the value chain within it.*

All organisations must take account of the environment in which they operate.



## Legal factors affecting all companies

Factor	Example
<b>General legal framework:</b> contract, tort, agency	Basic ways of doing business, negligence proceedings
<b>Criminal law</b>	Theft (eg of documents in Lanica's failed bid for the Co-op), insider dealing, bribery, deception
<b>Company law</b>	Directors and their duties, reporting requirements, takeover proceedings, shareholders' rights, insolvency
<b>Employment law</b>	Trade Union recognition, Social Chapter provisions, minimum wage, unfair dismissal, redundancy, maternity, Equal Opportunities
<b>Health and Safety</b>	Fire precautions, safety procedures
<b>Data protection</b>	Use of information about employees and customers
<b>Marketing and sales</b>	Laws to protect consumers (eg refunds and replacement, 'cooling off' period after credit agreements), what is or isn't allowed in advertising
<b>Environment</b>	Pollution control, waste disposal
<b>Tax law</b>	Corporation tax payment, Collection of income tax (PAYE) and National Insurance contributions, sales tax (VAT)

Analysing the environment

Employment protection

Health & safety protection

Data protection

Social, cultural and technological trends

Porter

There are several ways in which the government can affect the economic structure of an industry, by encouraging or stifling:

Capacity expansion  
Demand for goods and services  
Divestment strategies  
Emerging industries  
Entry barriers  
Competition



**Role is felt in:**

- Product standards
- Environmental protection
- Monetary policy
- R&D
- Regional policy
- Labour costs

Political change complicates the planning activities of many firms, and this is particularly felt in INTERNATIONAL TRADE - higher level of political risk.

**Regional trading organisations**

- |                 |            |
|-----------------|------------|
| ■ EU especially | ■ Mercosur |
| ■ NAFTA         | ■ WTO      |

Analysing the environment

**Employment protection**

Health & safety protection

Data protection

Social, cultural and technological trends

Porter

Much legislation has been aimed at this area.

### Legislation

- Retirement
- Resignation
- Dismissal – wrongful  
– unfair
- Disciplinary procedures
- Redundancy
- Equal opportunities



Companies must be very careful when handling these matters.

Analysing the environment

Employment protection

**Health & safety protection**

Data protection

Social, cultural and technological trends

Porter

An employer has obligations here under UK and EU law.

### Employer duties

- All work practices must be safe
- Environment must be safe
- Plant/machinery maintained
- Training
- Communication of policies
- Risk assessments and controls
- Share information
- Identify those most at risk
- Employ competent advisers

implement  
and  
promote

### Employee duties

- Take reasonable care
- Allow employer to carry out duties
- Not interfere with machinery
- Inform employer of dangers
- Use all equipment properly

### Health and safety policy

- Statement of principles
- Detail of safety procedures
- Compliance with the law
- Detailed equipment instructions
- Training requirements



The main legislation in the UK is the Data Protection Act 1998.

## Data Protection Principles

- 1 Personal data shall be processed fairly and lawfully
- 2 Obtained only for specified and lawful purposes
- 3 Adequate, relevant and not excessive
- 4 Accurate and up-to-date
- 5 Not kept for longer than necessary
- 6 Processed in accordance with the rights of data subjects
- 7 Appropriate measures shall be taken against unauthorised use
- 8 Shall not be transferred to a country where data protection rights are not upheld

The Act also establishes rights for data subjects

Compensation

Correction of data

Access

Sue

Analysing the environment

Employment protection

Health & safety protection

Data protection

**Social, cultural and technological trends**

Porter

Population affects an organisation's supply of labour and hence its human resources policies. Cultural trends will also have an impact on a business and demand for its products/services.

#### **Factors to consider**

- Changing age structure
- Women participating
- Older workers
- Family life cycle
- Social structures/'class'
- Buying patterns
- Income and wealth
- Health and diet
- Equal opportunities
- Environmentalism

Technology has often resulted in reduced staff → reduced SPANS OF CONTROL;  
reduced layers: 'FLATTER' organisations



Information systems such as intranets  
can help to foster unity and coherency

→ Centralised systems

→ Decentralised systems

#### Effects of IT on organisations

- Routine processing is quicker
- Digital information is easily sorted
- Employee skills base changing
- Continued change to keep up
- Customer service enhanced
- Information as a 'commodity'
- Email, voicemail, video-conferencing
- Outsourcing of operations to specialists



For the employee it can lead to information overload, and changes in the nature of work, but IT also fosters close business relationships regardless of geographical location, and more flexible working arrangements.

Analysing the environment

Employment protection

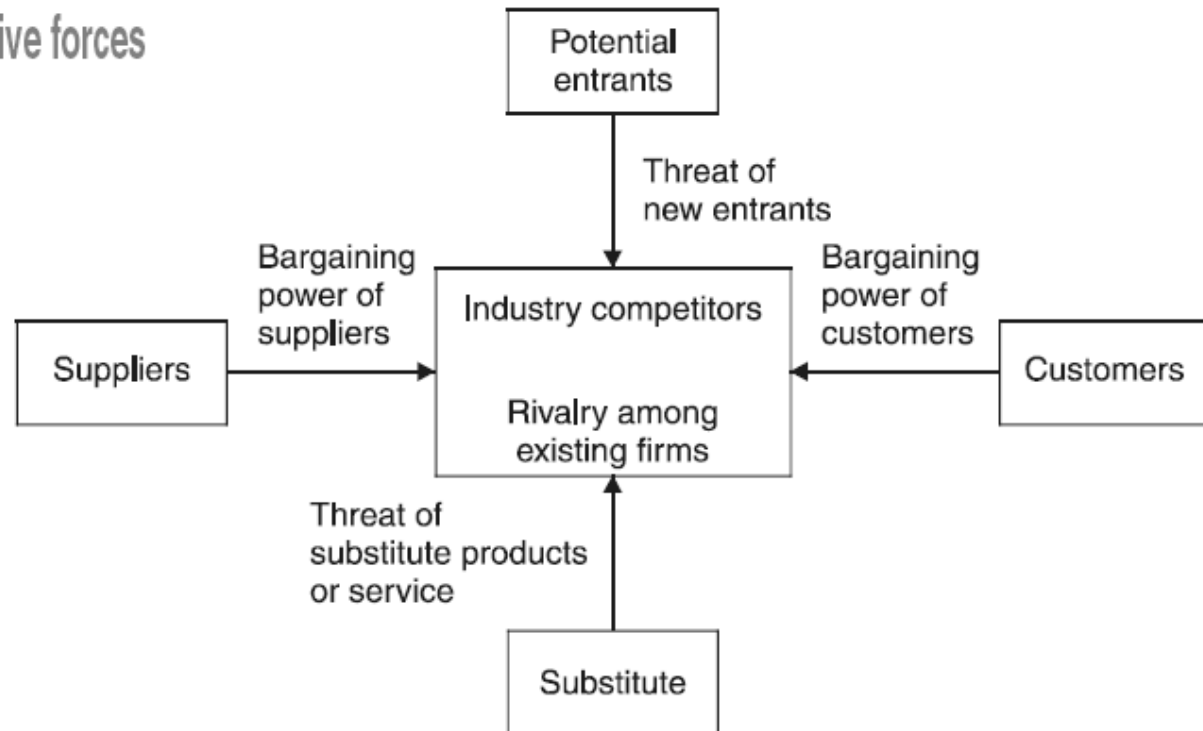
Health & safety protection

Data protection

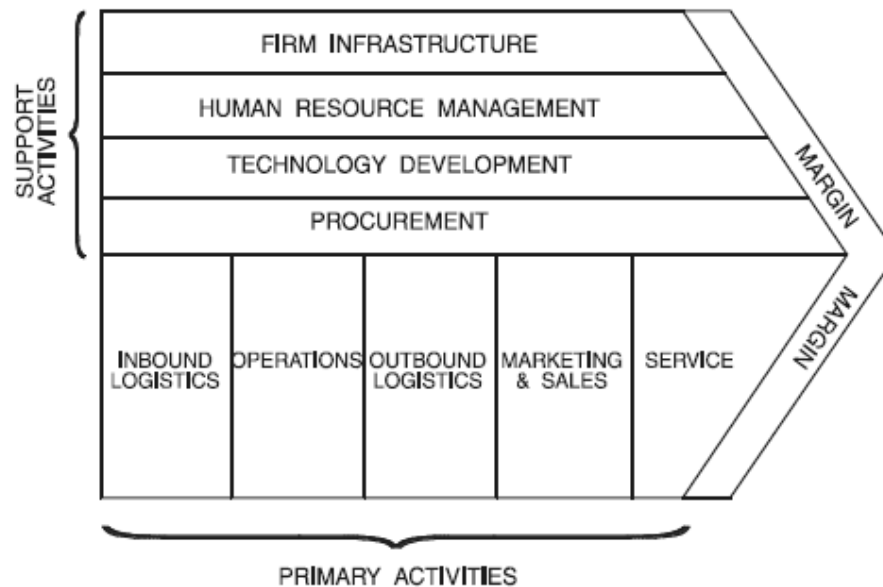
Social, cultural and technological trends

Porter

## Porter's competitive forces



The value chain model is one way of analysing what a firm does – and how it organises and performs its activities in order to ADD VALUE



The **margin** is what the customer pays over and above the costs to the firm

Analysing the  
environment

Employment  
protection

Health &  
safety protection

Data  
protection

Social, cultural and  
technological trends

Porter

Activity	Comment
Inbound logistics	Receiving, handling and storing inputs to the production system: warehousing, transport, inventory control and so on.
Operations	Convert resource inputs into a final product. Resource inputs are not only materials. People are a resource especially in service industries.
Outbound logistics	Storing the product and its distribution to customers: packaging, testing, delivery and so on.
Marketing and sales	Informing customers about the product, persuading them to buy it, and enabling them to do so: advertising, promotion and so on.
After sales service	Installing products, repairing them, upgrading them, providing spare parts and so forth.
Procurement	Acquire the resource inputs to the primary activities (eg purchase of materials, subcomponents equipment).
Technology development	Product design, improving processes and/or resource utilisation.
Human resource management	Recruiting, training, developing and rewarding people.
Firm infrastructure	Planning, finance, quality control: Porter believes they are crucially important to an organisation's strategic capability in all primary activities.

## 8: The role of accounting

### Topic List

---

The purposes of accounting information

---

Nature, principles and scope of accounting

---

The regulatory system

---

Control over transactions

---

The main financial systems

---

Computerised accounting & databases

---

*This chapter introduces some basic ideas about accounts and accounting information and its purpose. The operation of financial systems is also considered.*

The purposes of  
accounting information

Nature, principles and  
scope of accounting

The regulatory  
system

Control over  
transactions

The main  
financial systems

Computerised  
accounting & databases

Accounting is a way of recording, analysing and summarising the transactions of a business. The accounting function also provides information and advice to other departments.

### Influences on the accounting system

- Size
- Type of organisation
- Organisation structure

Formalised and procedural, to comply with wide range of regulations

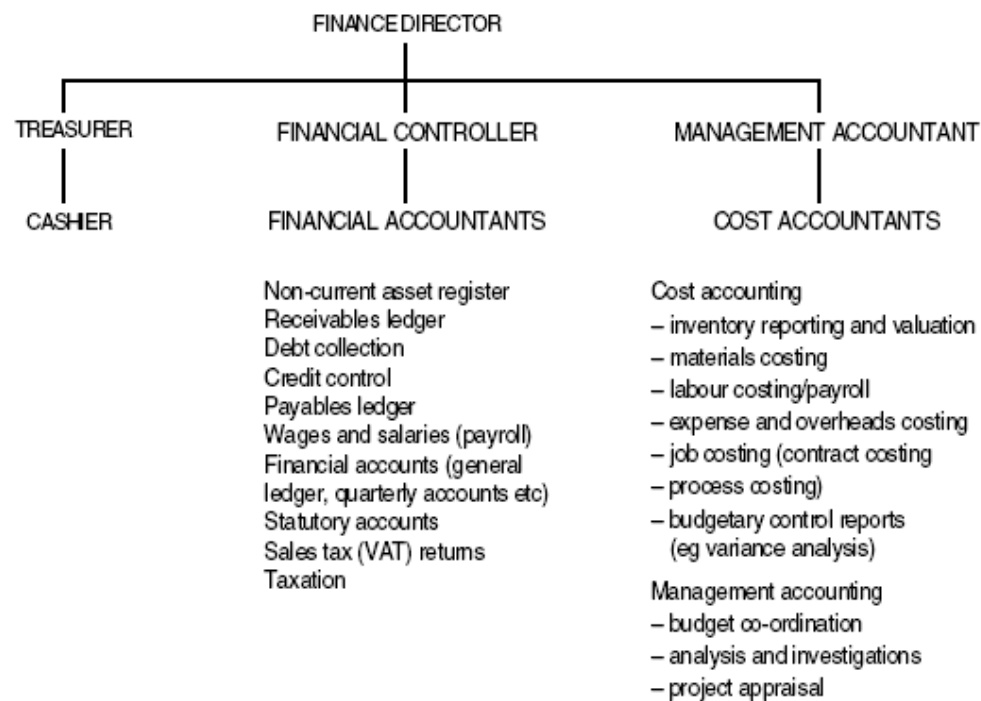
### Good accounting information

- |                     |                 |
|---------------------|-----------------|
| ■ Relevance         | ■ Objectivity   |
| ■ Comprehensibility | ■ Timeliness    |
| ■ Reliability       | ■ Comparability |
| ■ Completeness      |                 |

### Users

- |                     |                       |
|---------------------|-----------------------|
| ■ Managers          | ■ Customs             |
| ■ Shareholders      | ■ Employees           |
| ■ Trade contacts    | ■ Analysts & advisers |
| ■ Finance providers | ■ Government          |
| ■ HM Revenue &      | ■ The public          |





The purposes of  
accounting information

**Nature, principles and  
scope of accounting**

The regulatory  
system

Control over  
transactions

The main  
financial systems

Computerised  
accounting & databases

## Financial accounting

The method for reporting the results and financial position of a business, which must then be audited.

## Management (or cost) accounting

Management information system which analyses data to provide information as a basis for managerial action.

Note the distinction between:

REPORTING TO  
EXTERNAL  
PARTIES  
(financial)

vs

INTERNAL  
INFORMATION  
FOR PLANNING  
AND CONTROL  
(management)

These are both distinct from FINANCIAL MANAGEMENT, which deals with raising finance and controlling financial resources (such as borrowings, dividends, capital expenditure, credit policies).

The purposes of  
accounting information

Nature, principles and  
scope of accounting

**The regulatory  
system**

Control over  
transactions

The main  
financial systems

Computerised  
accounting & databases

### **Factors which have shaped financial accounting:**

Factors which have shaped financial accounting:

- Company law (CA 2006)
- Accounting concepts and individual judgement (eg on valuations or R&D)
- Accounting standards (for comparability)
- The European Union
- Other international influences (eg IASB and global accounting standards)
- Generally accepted accounting practice (GAAP)
- 'True and fair view'

The purposes of accounting information

Nature, principles and scope of accounting

The regulatory system

**Control over transactions**

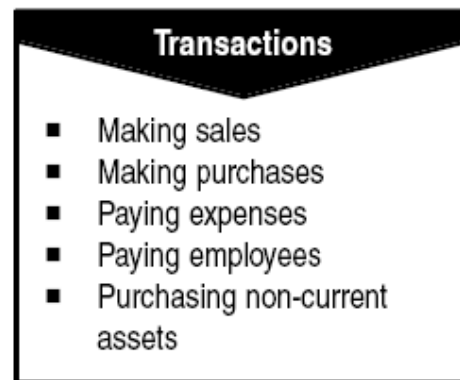
The main financial systems

Computerised accounting & databases

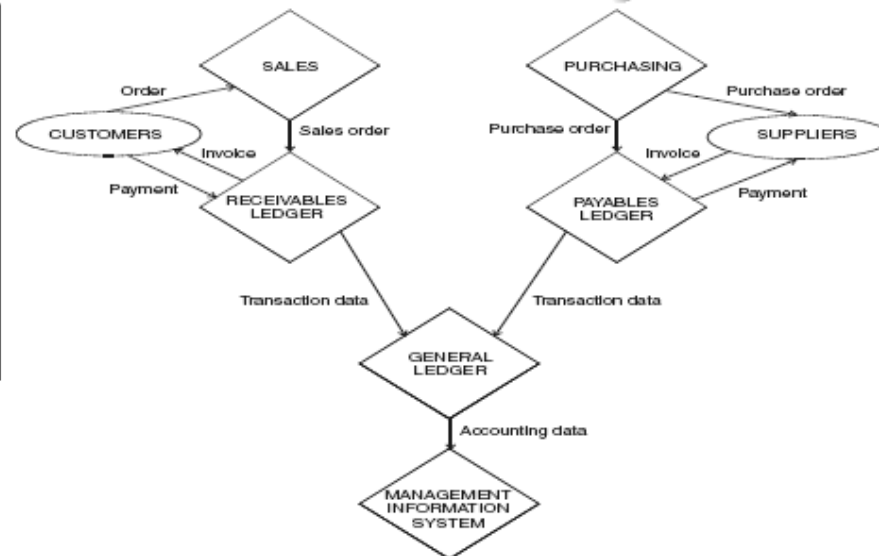
## Common functions

Purchasing – raw materials or goods  
Human resources – staff and their welfare  
Finance – transactions, cash balances  
Sales and marketing – orders and advertising  
General administration – wide ranging, eg secretarial support

Rules and procedures will govern each, eg authorisation policies for the purchase of non-current assets



Depend upon effective systems and procedures



## PAYROLL

### Key controls:

- Documentation/  
authorisation
- Calculation of  
wages/ salaries
- Payment of wages/  
salaries
- Authorisation of  
deductions

Inputs  
Processing  
Outputs

}

## PURCHASES

### Key controls:

- Authorisation  
(buying)
- Custody (goods  
inwards)
- Accounting  
(recording)

each system has these

## SALES

### Key controls:

- Authorisation  
(selling)
- Custody (goods  
outwards)
- Accounting  
(recording)

## CASH

Cash and petty cash  
must be regularly and  
fully recorded,  
reconciled but funds  
transfer is generally by:

- Company cheque
- Bank transfer
- Internet transfer
- Standing order
- Direct debit

The purposes of accounting information

Nature, principles and scope of accounting

The regulatory system

Control over transactions

The main financial systems

**Computerised accounting & databases**

The most important point to remember is that the principles of computerised accounting are the same as those of manual accounting. The same terms are used (day book, ledgers, double entry, trial balance etc). Information is expressed via CODES.

An ACCOUNTING PACKAGE consists of several ACCOUNTING MODULES (eg receivables ledger)

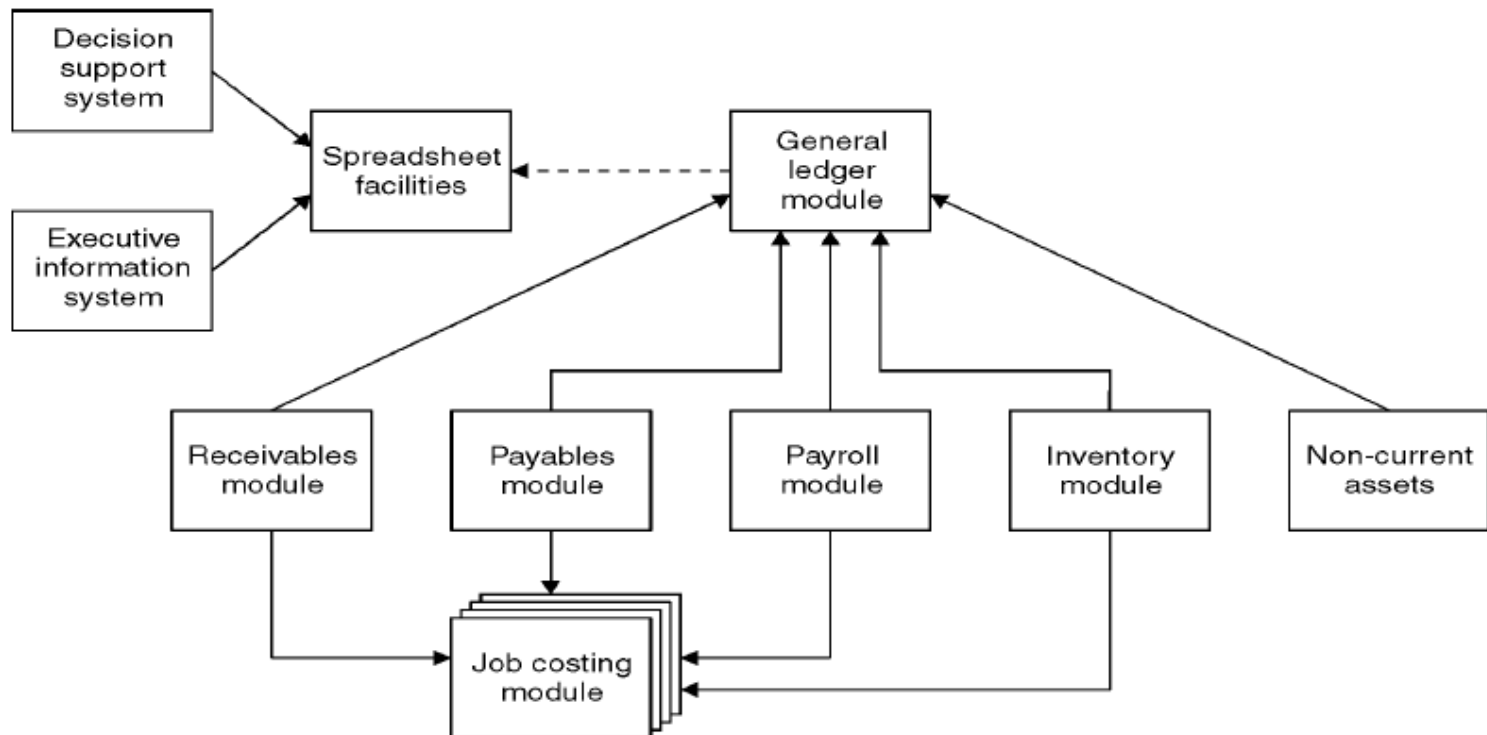
**Manual systems inferior to computers in some areas:**

- Productivity
- Speed
- Error rate
- Accessibility
- Ease of alteration
- Quality
- Bulk

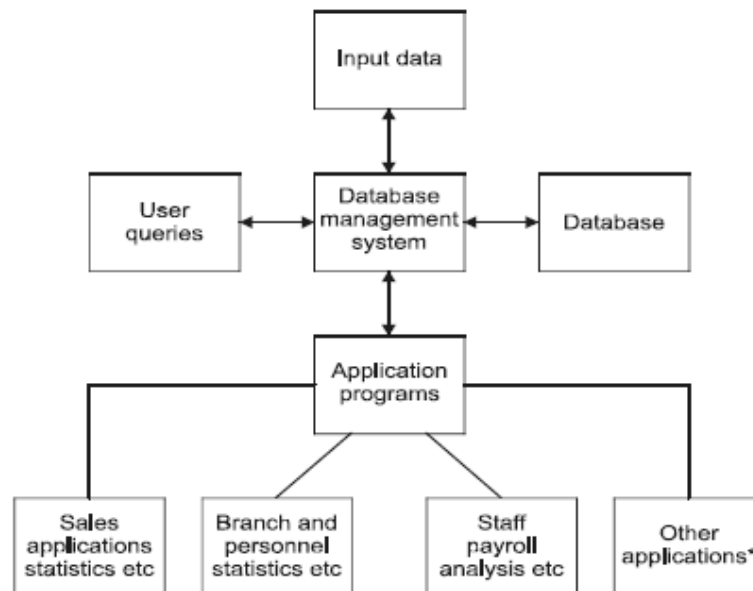
**Possible modules**

- Invoicing
- Inventory
- Sales
- Purchases
- General ledger
- Payroll
- Cash book
- Job costing
- Non-current asset register
- Report generator

Each module may be **INTEGRATED** with the others, so that all modules are updated by one data entry, eg sales and inventory modules both updated by the despatch of an invoice to a customer



A database is a pool of data, which can be used by any number of applications. Its use is not restricted to the accounts department.



\* The range of applications which make use of a database will vary widely, depending on what data is held in the database files.

### Main virtues

- Common data to share
- No duplication of files
- No inconsistent data



### Needs to:

- Be shared
- Be up to date
- Be relevant for all users
- Be capable of evolving

Note also the use of SPREADSHEETS – essentially an electronic piece of paper which provides an easy way of performing numerical calculations.



## 9: Control, security and audit

### Topic List

---

Internal control systems

---

Internal control environment & procedures

---

Internal audit & internal control

---

External audit

---

IT systems security & safety

---

Building controls into an information system

---

*This chapter discusses the main elements of internal control systems that organisations operate. Internal and external audit are a large part of such systems, as are issues related to computerised information.*

**Internal  
control systems**

Internal control  
environment & procedures

Internal audit &  
internal control

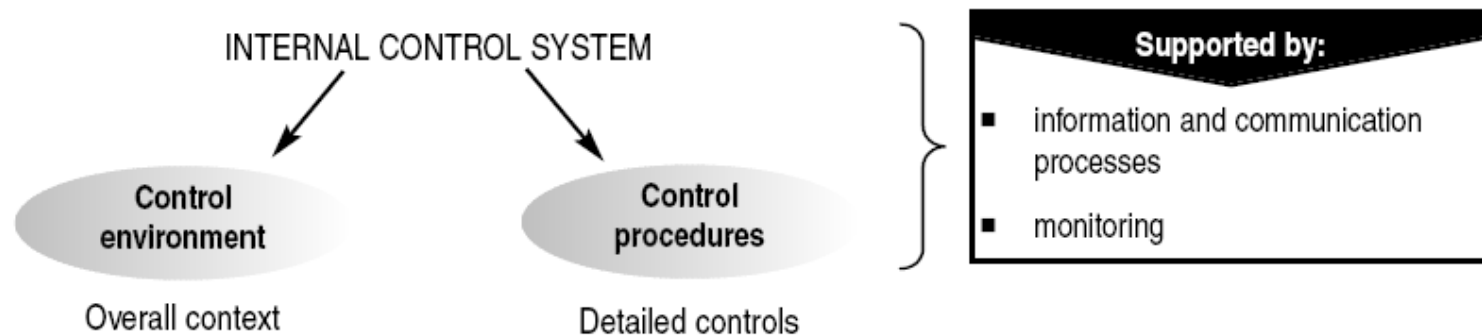
External  
audit

IT systems  
security & safety

Building controls into  
an information system

## Internal controls

Help organisations to counter risks, maintain the quality of reporting and comply with laws and regulations. They consist of actions taken by management to enhance the likelihood that established objectives and goals will be achieved.



Limitations include: potential for human error; collusion; management override; dealing with non-routine transactions.

Internal  
control systems

Internal control  
environment & procedures

Internal audit &  
internal control

External  
audit

IT systems  
security & safety

Building controls into  
an information system

## The control environment

This is the overall attitude, awareness and actions of directors and management regarding internal controls and their importance. It is reflected in the philosophy and operating system of the organisation.

### Classification of control procedures

- Administration and accounting
- Prevent, detect and correct
- Discretionary and non-discretionary
- Voluntary and mandated
- Manual and automated
- General and application
- Financial and non-financial

AND/OR

S egregation of duties

P hysical

A uthorisation and approval

M anagement

S upervision

O rganisation

A rithmetical and accounting

P ersonnel

Remember that internal controls should not be confused with **INTERNAL CHECKS**, which have a more restricted definition as checks on day-to-day transactions.

Internal  
control systems

Internal control  
environment & procedures

Internal audit &  
internal control

External  
audit

IT systems  
security & safety

Building controls into  
an information system

### Characteristics of a good internal control system

- Clearly defined organisation structure
- Adequate internal checks
- Acknowledgement of work done
- Physical security
- Formal documentation
- Pre-review
- System for authorising transactions
- Post-review
- Authorisation, custody and re-ordering procedures
- Personnel with necessary capabilities/qualifications
- Internal audit department

Internal  
control systems

Internal control  
environment & procedures

**Internal audit &  
internal control**

External  
audit

IT systems  
security & safety

Building controls into  
an information system

## Internal audit

Independent, internal appraisal activity – examining and evaluating the adequacy and effectiveness of other controls. Its two main features are INDEPENDENCE and APPRAISAL.

### Objectives

- Review of the accounting and internal control systems
- Examination of financial and operating information
- Review of economy, efficiency and effectiveness
- Review of compliance
- Review of asset safeguards
- Review of implementation of corporate objectives
- Identification of risks, and risk management
- Special investigations into any aspect of the organisation

### Types

- Operational
- Systems
- Transactions
- Social
- Management investigations

The internal auditor is accountable to the highest executive level in the organisation, preferably the audit committee of the Board of Directors.

Internal  
control systems

Internal control  
environment & procedures

Internal audit &  
internal control

**External  
audit**

IT systems  
security & safety

Building controls into  
an information system

## External audit

is the periodic examination of the books of account and records of an entity carried out by an independent third party to ensure that they have been properly maintained, are accurate and comply with established concepts, principles, accounting standards, legal requirements and give a true and fair view of the financial state of the entity.

	Internal audit	External audit
Reason	Internal audit is an activity designed to add value and improve an organisation's operations.	External audit is an exercise to enable auditors to express an opinion on the financial statements.
Reporting to	Internal audit reports to the board of directors, or others charged with governance, such as the audit committee.	The external auditors report to the shareholders, or members, of a company on the stewardship of the directors.
Relating to	Internal audit's work relates to the operations of the organisation.	External audit's work relates to the financial statements. They are concerned with the financial records that underlie these.
Relationship with the company	Internal auditors are very often employees of the organisation, although sometimes the internal audit function is outsourced.	External auditors are independent of the company and its management. They are appointed by the shareholders.

Internal audit has a much WIDER SCOPE than external audit.

Internal  
control systems

Internal control  
environment & procedures

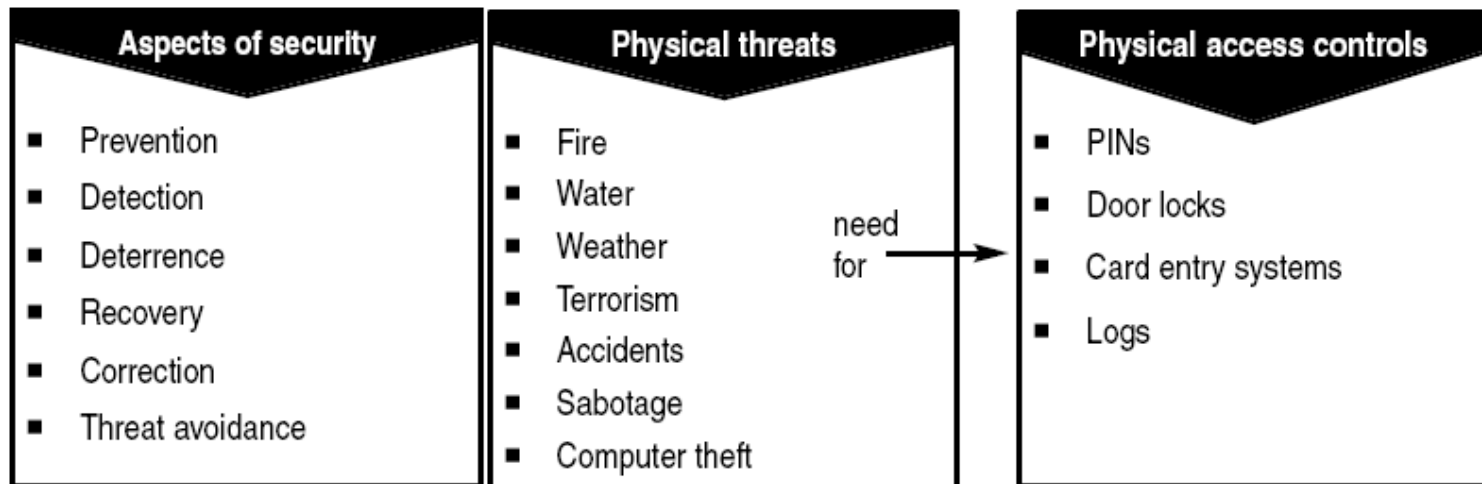
Internal audit &  
internal control

External  
audit

**IT systems  
security & safety**

Building controls into  
an information system

Security covers the protection of data from accidental or deliberate threats, and the protection of an information system from such threats.



Internal  
control systems

Internal control  
environment & procedures

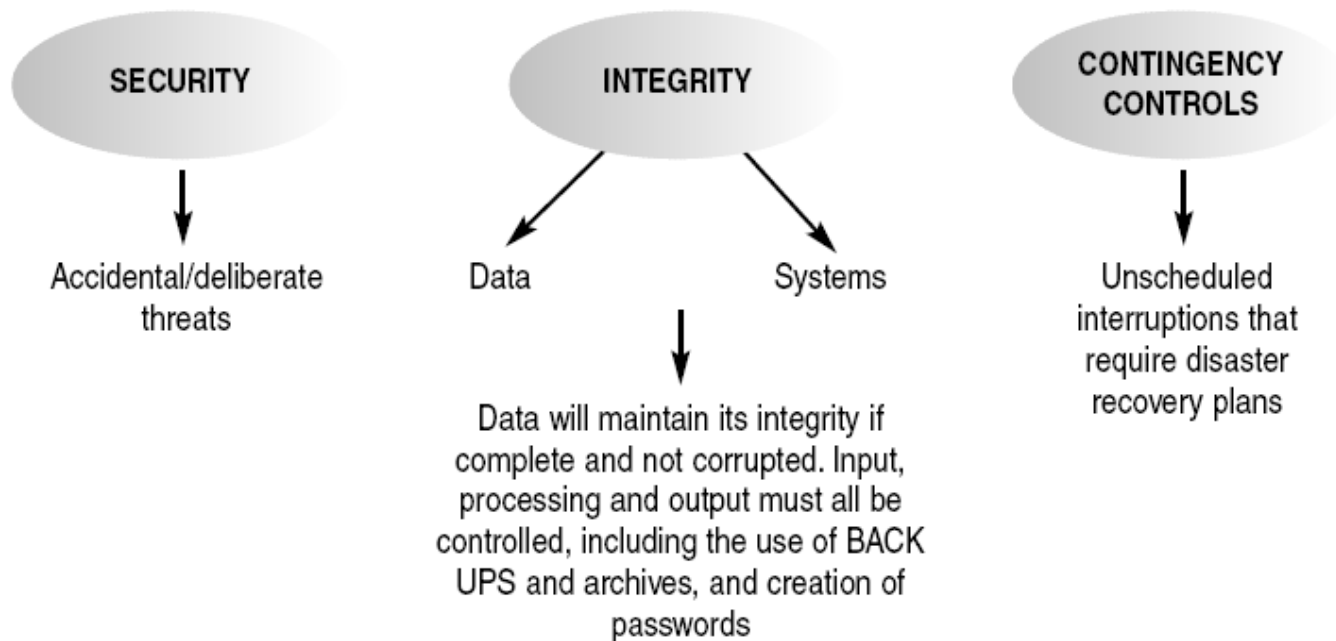
Internal audit &  
internal control

External  
audit

IT systems  
security & safety

Building controls into  
an information system

Such controls can be classified as:





## 10: Identifying and preventing fraud

### Topic List

---

What is fraud?

---

Potential for fraud

---

Implications of fraud

---

Systems for detecting and preventing fraud

---

Responsibility for detecting and preventing fraud

---

*This chapter considers the various types of fraud, its prevention and detection. The consequences of fraud can be very serious for both the organisation and its direction.*

What is fraud?

Potential for fraud

Implications of fraud

Systems for detecting and preventing fraud

Responsibility for detecting and preventing fraud

## Fraud

Deprivation by deceit

There are two main categories:

### Removal of funds or assets from a business

- Theft of cash
- Theft of inventory
- Payroll fraud
- Teeming and lading
- Fictitious customers
- Collusion with customers
- Bogus supply of goods
- Paying for goods not received
- Manipulation of cash book
- Misuse of assets

OR

### Intentional misrepresentation of the financial position

- Overvaluation of inventory
- Fictitious sales
- Manipulation of year end events
- Understating expenses
- Manipulation of depreciation figures

What is fraud?

Potential for fraud

Implications of fraud

Systems for detecting and preventing fraud

Responsibility for detecting and preventing fraud

**Prerequisites:**

↓  
Dishonesty  
↓  
Motivation  
↓  
Opportunity

These pre-conditions must exist in order to make fraud a possibility.

**High fraud risk:**

Lack of integrity  
↓  
Excessive pressures  
↓  
Poor control systems

Unusual transactions  
↓  
Lack of audit evidence

Factors crop up time and time again as potential fraud situations

**External factors**

- General environment
- Industry features
- Technology
- Economic changes

**Internal factors**

- New personnel
- New systems
- New operations
- Restructuring

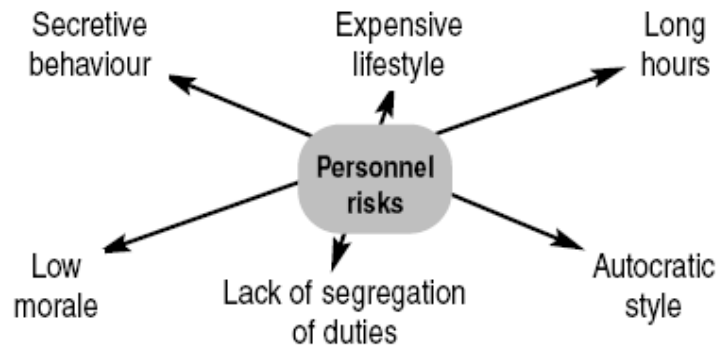
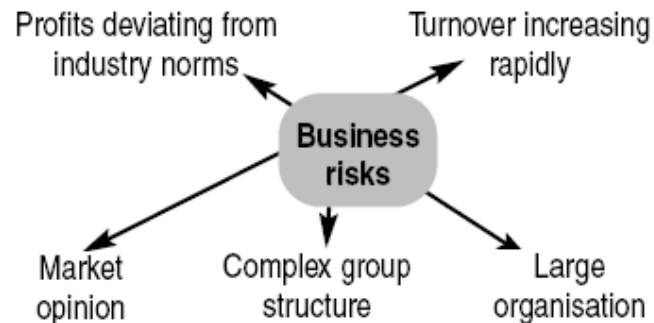
What is fraud?

Potential for fraud

Implications of fraud

Systems for detecting and preventing fraud

Responsibility for detecting and preventing fraud



## Computer fraud

The computer is frequently the vehicle through which fraud is carried out.

↓  
Lack of training

↓  
Computer hackers

↓  
Risk awareness

↓  
User-friendly and flexible systems

The precise ways in which the firm is affected depends on the type of fraud being carried out.

Removal of funds or assets

- Profits are lower
- Business has fewer assets
- Net asset position weakened
- Returns to shareholders fall
- Reduced working capital
- Cannot operate effectively
- Company collapses in serious cases

Intentional misrepresentation

**Artificially enhanced:**

- Distributions too high
- Retained profits low
- Shortfalls in working capital
- Incorrect decisions
- Stakeholders misled

**Results understated:**

- Returns may be reduced
- Share price falls
- Loan finance restricted
- Negative publicity
- Legal consequences

What is fraud?

Potential for fraud

Implications of fraud

Systems for detecting and preventing fraud

Responsibility for detecting and preventing fraud

Managing the risk of fraud is a key part of managing business risks in general. There must be a willingness to enforce controls.

#### General prevention policies

- Emphasising ethics
- Recruitment procedures
- Personnel controls
- Training and awareness
- Segregation of duties
- Appropriate documentation
- Limitation controls
- Physical security
- Authorisation policies
- Standard procedures
- Computer security

- 1 Managers and staff need to be aware of their responsibilities. There may even be a FRAUD OFFICER.
- 2 Fraud DETECTION is helped by having information readily available, and encouraging employees to report any suspicions – 'WHISTLEBLOWING'
- 3 INTERNAL AUDIT staff must ensure that systems and controls are thoroughly reviewed. EXTERNAL AUDIT staff must assess the risk of fraud having a material impact.
- 4 INVESTIGATION procedures include establishing the **extent** of the loss, **how** it occurred, **who** was implicated and the role of the **control system**.

What is fraud?

Potential for fraud

Implications of fraud

Systems for detecting and preventing fraud

**Responsibility for detecting and preventing fraud**

It is the responsibility of the DIRECTORS to take such steps as are REASONABLE to prevent and detect fraud.

### **Directors**

#### **Ensure that:**

- Assets are safeguarded
- Activities are honest
- Financial information is reliable

#### **Also:**

- Deter fraudulent conduct
- Detect any that occurs

### **External auditors**

- Express an opinion as to true and fair view
- Design procedures so as to have a REASONABLE expectation of detecting fraud
- Document findings and report to management
- Arrange for reporting to an appropriate authority if serious enough
- Qualify audit report if necessary

# 11: Leading and managing people

## Topic List

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The purpose & process of management

---

Writers on management

---

Management & supervision

---

What is leadership?

---

Leadership skills & styles

---

*This chapter attempts an overview of the manager's task, and traces the development of management theory away from universal principles towards contingency approaches and a focus on areas such as leadership and other skills.*



## Management

'Getting things done through other people'

- 1 Set objectives
- 2 Monitor progress and results
- 3 Communicate corporate values
- 4 Stewardship
- 5 Looking after stakeholders



### Key roles

- Work planning
- Resource allocation
- '4Ms'
- Prioritising
- Projects & project management

via:

- Authority:
- Accountability:
- Responsibility:
- Delegation:
- Power:

the 'right' to do something  
accountability for actions  
obligation to perform  
giving subordinate authority  
the ability to do something

- Physical power
- Resource power
- Position power
- Expert power
- Referent power
- Negative power

## Project management

A project is: 'an undertaking that has a *beginning* and an *end* and is carried out to meet established *goals* within *cost, schedule* and *quality objectives*'. (Haynes)

↑ NB: **Not** a continuous, ongoing activity

BUT: Team management has many of these aspects

### Examples

- A construction project (planning → completion)
- Design/development of a new IT system
- Installation of new equipment
- Launch of a new product
- Deliver consultancy report to a client

### Role of the project manager

- *Outline planning*: strategy, procedures, targets
- *Detailed planning*: identifying tasks, resources requirements; network analysis for scheduling
- *Team-building*: establishing project identity – multi-functional (or multi-organisational) if required
- *Communication*: briefing team members, feeding back on progress, reporting, leading meetings
- *Co-ordination*: integrating schedules and work flows
- *Monitoring and control*: identifying and correcting departures from plan
- *Problem solving*: interpersonal, task, contingency
- *Quality control*: juggling time/cost and quality targets

## Frederick Taylor: Scientific management

‘All knowledge which had hitherto been kept in the heads of workmen should be gathered and recorded by management. Every single subject becomes the question for scientific investigation, for reduction to law.’

### Scientific management techniques

- Work study techniques used to determine efficient methods and standard times
- Jobs broken down into single specialised operations
- Workers trained and offered monetary incentives to accept new methods and output norms

## Henri Fayol: Classical management

‘Universality of management principles’

### Five **Functions** of Management

- 1 *Planning*: Selecting objectives, and the strategies, policies and plans to achieve them
- 2 *Organising*: Grouping tasks into jobs and functions; allocating authority to perform them
- 3 *Commanding*: Instructing subordinates to perform allocated tasks
- 4 *Co-ordinating*: Integrating objectives and work flows, harmonising different interests
- 5 *Controlling*: Monitoring, measuring, feeding back and correcting deviation from plan

## Elton Mayo: Human relations

'Although significant technological advances were made ... the serious weakness of the scientific approach to management was that it de-humanised the organisation member, who became ... an impersonal cog in the machine of production.' (Hicks)

Mayo: managerial training 'must include knowledge of relevant technical skills, of the systematic ordering of operations, and of the *organisation of co-operation*'.

- 1 People are motivated by 'belonging' needs which are satisfied by social relationships at work
- 2 Group dynamics and other human factors have a key influence on work performance
- 3 Later (*neo-human relations*) writers (Maslow, Herzberg, McGregor: see Chapter 13) suggested that people are motivated by 'higher' psychological needs for growth, responsibility, challenge and fulfilment

## Peter Drucker

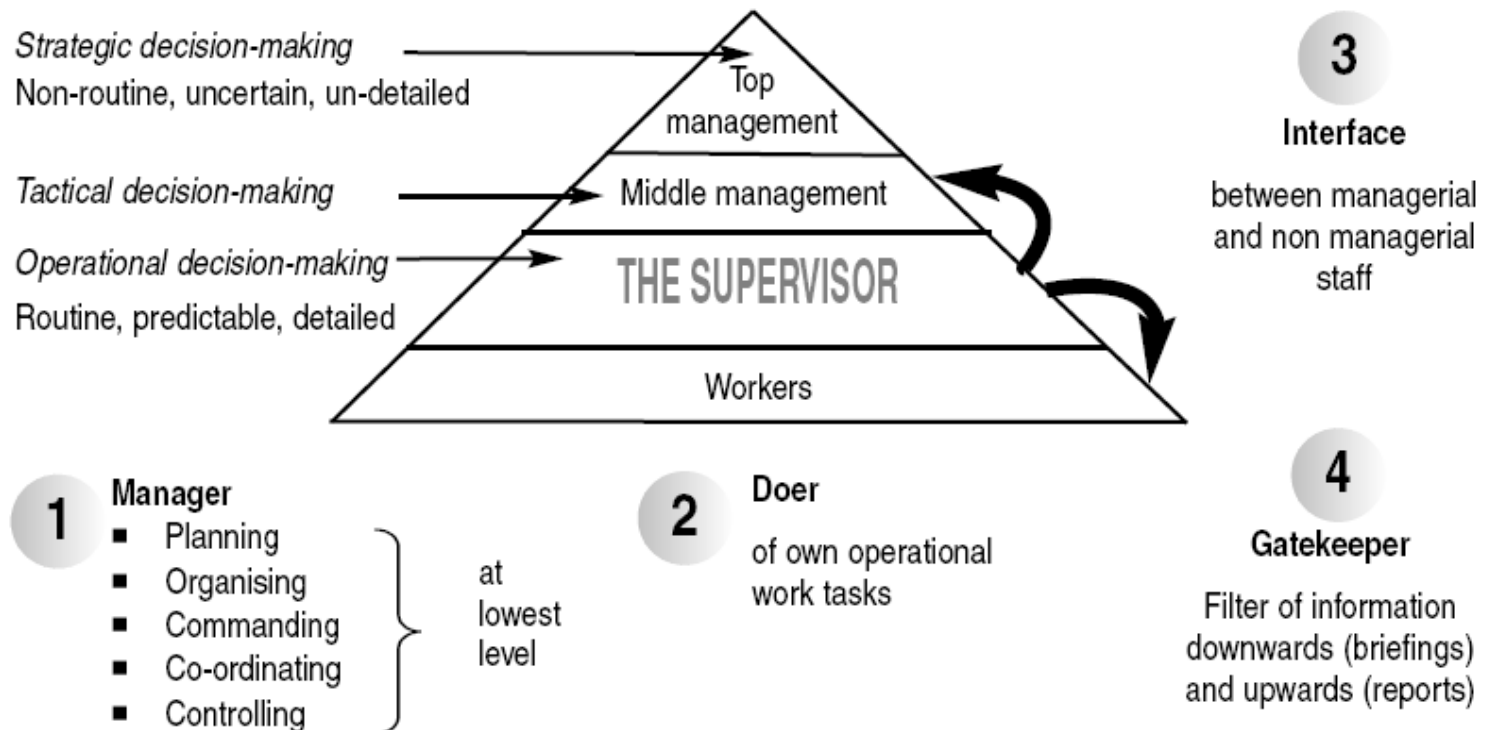
The prime function of a *business* manager is *economic performance*.

The 'Hawthorne Studies' demonstrated the power of the human factor - particularly in work groups

## Henry Mintzberg: Managerial roles

Managers are not reflective, systematic planners: managerial work, in practice, is disjointed and discontinuous, and involves verbal/informal communication, intuition and judgement.

<b>1</b>	<b>INTERPERSONAL ROLES</b>	▪ Figure head	A ceremonial role, representing the organisation
		▪ Leader	Motivating, commanding, inspiring, developing staff
		▪ Liaison	Maintaining contacts outside the vertical chain of command
<b>2</b>	<b>INFORMATIONAL ROLES</b>	▪ Monitor	Scanning for information from internal and external networks
		▪ Spokesperson	Providing information to interested parties on behalf of the organisation
		▪ Disseminator	Sharing information via networks with those who need it
<b>3</b>	<b>DECISIONAL ROLES</b>	▪ Entrepreneur	Initiating projects, mobilising resources to meet opportunities
		▪ Disturbance handler	Responding to pressures and problems that affect performance
		▪ Resource allocator	Mobilising and allocating limited resources to teams/objectives
		▪ Negotiator	Integrating different interests through bargaining processes



## Leadership

'The activity of influencing people to strive willingly for group objectives.'

### Management

- Can be exercised over tasks, time, projects, resources
- Is an organisational process
- Is based on authority
- Depends in legitimacy: delegated from above
- Secures compliance/standard levels of performance
- Involves structure, analysis, control activities: planned inputs → predictable outputs

**VS.**

### Leadership

- Can only be exercised over people
- Is an interpersonal process
- Is based on power/influence
- Depends on 'followership': conferred from below
- Secures commitment/extra levels of performance
- Involves influencing, persuading, enthusing: creating/communicating vision for change

Leadership skills are in demand because of the increasing need for committed performance, enabling flexibility, innovation, responsiveness and competitive advantage.

**Trait theories** ('leaders are born, not made') have been discredited.

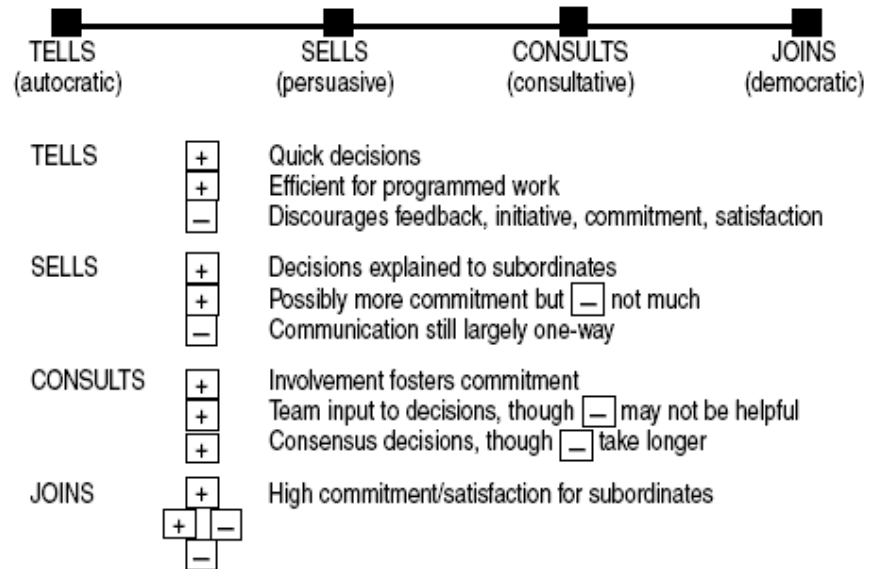
**Style theories** describe the various preferences or behavioural styles of managers

**Contingency theory** sees effective leadership as being dependent on circumstances

### ■ *The Ashridge model*

It is important to be realistic about the value of style (or any) theory.

- Managers may not be flexible enough to adopt new styles
- Employees dislike apparent inconsistency
- No one style is 'best'



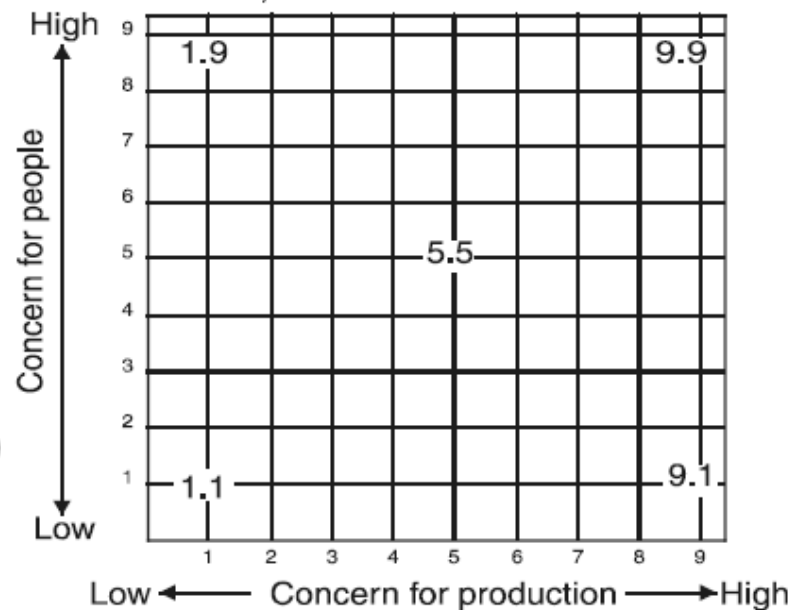


*Blake and Mouton* (The Ohio State Leadership Studies) proposed a two-dimensional model of leadership, based on ■ Concern for task/production and ■ Concern for people (Note: these are **not** opposite ends of a continuum: managers may score high or low on either dimension or both).

### The managerial grid

- 1.1 Impoverished management
- 1.9 'Country club' management
- 9.1 Task management
- 9.9 Team management
- 5.5 Middle of the road (or dampened pendulum)

Questionnaires are used to plot a manager's 'position' for self-insight and development purposes



## Fiedler

Two types of leader:

- Psychologically distant (formal, reserved, task-focused)
- Psychologically close (informal, relationship-focused)

The work situation:

- Leader/group relationship
- Task structure/definition
- Power of the leader

The situation is *favourable* when:

- Leader is liked/trusted and has high power and
- Task is clearly defined

- Highly favourable/unfavourable situation: distant style works best.
- Moderately favourable situation: close style works best.

## Handy

The ability of the manager to lead/influence the work group will vary according to:

- *Leader*: personality, performance
- *Subordinates*: personality, maturity, ability
- *Task*: complexity, structure, timescale

(NB in *context*: leader power, norms, systems etc.)

Each factor will suggest a style somewhere on:

Tight (control)  Flexible (control)

The most effective style will be one which finds a *best fit* for all three factors, within the constraints of the context.

The purpose &  
process of management

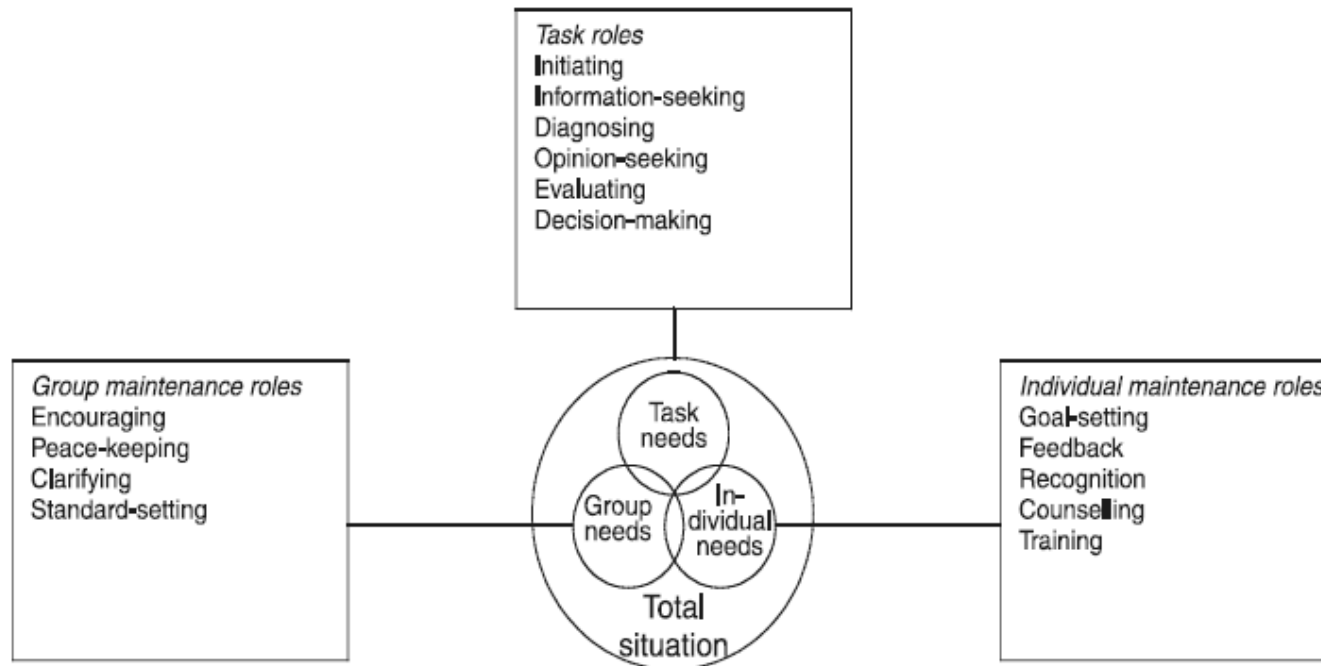
Writers on  
management

Management  
& supervision

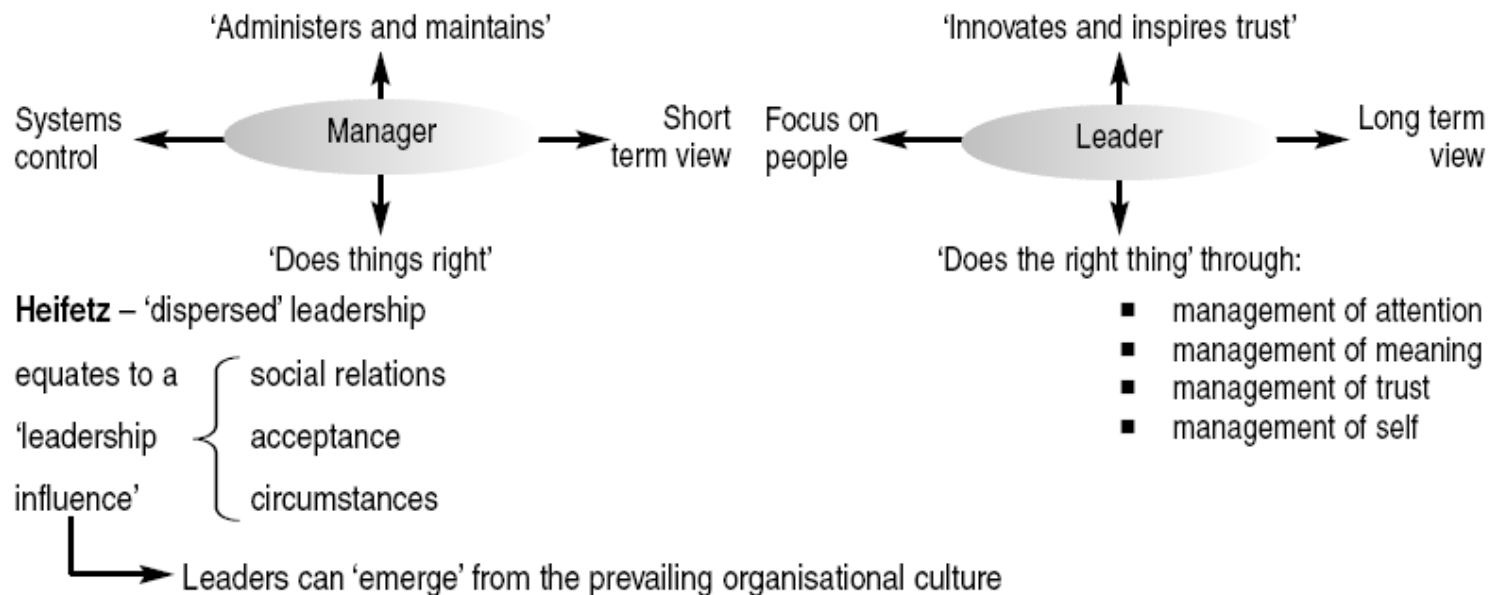
What is  
leadership?

Leadership  
skills & styles

John Adair's situational leadership model (*ACTION-CENTRED LEADERSHIP*) is less concerned with leadership style than leadership *functions*. These must be seen in a context of task, group and individual needs. The total situation dictates the relative priority to be given to each of these needs.



**Warren Bennis** puts forward some specific differences between the role of the manager and the role of the leader.



## 12: Individuals, groups and teams

### Topic List

---

Individuals

---

Groups and teams

---

Team member roles

---

Team development

---

Building a team

---

Successful teams

---

*Managers need to understand the behaviour of individuals at work in order to motivate, control and develop performance. The basic building block of the organisation is the team or work group: you need to understand how effective teams are formed, built and managed. Teamwork involves both getting the job done and keeping the team together.*

Individuals

Groups and  
teams

Team member  
roles

Team  
development

Building  
a team

Successful  
teams

## Personality

*Personality* is the total pattern of characteristic ways of thinking, feeling and behaving that constitute an individual's distinctive method of relating to the environment.

### Key managerial issues – Compatibility?

- Different personality types may suit different work
- Different personality types may suit particular structures, systems and cultures of work
- Different personality types may have different orientations to/needs from work
- Different personality types may 'clash'

Recruit and select carefully. Manage conflict. Contingency approach to HRM

## Perception

*Perception* is the psychological process by which stimuli (in-coming sensory data) are selected and organised into patterns which are meaningful to the individual.

### Key material issues – Misunderstanding?

- People see things differently: there is potential for misunderstanding, which can lead to conflict
- People can confuse the 'map' for the 'territory': perceptions can be entrenched, even though they are only viewpoints
- Common clashes of perception include: 'us and them' (management/staff) and unintended racial/ sexual harassment.


Practise and facilitate 'seeing the other side'. Define terms and problems collaboratively. Recognise 'grey areas'

## Attitude

An *attitude* is a mental state exerting a directive or dynamic influence upon the individual's response to all objects and situations with which it is related.

### Key managerial issues

- Attitudes to work may be positive or negative
- Attitudes to work-related issues (management, co-workers, conditions etc) may affect co-operation, motivation, commitment and so on
- Attitudes are brought to work: these may be helpful (or unhelpful) eg in regard to politics, race, gender




Control conflict: reinforce co-operation.  
Discipline unhelpful/unlawful attitudes.  
Reinforce (reward, recognise) positive attitudes

## Roles

*Roles* are the parts people act out in different contexts, according to the tasks and relationships required by those contexts. The people who relate to a person in a particular role are called a 'role set'.

### Key managerial issues

- Managers (and others) need to behave appropriately for their role set, giving appropriate role signs
- Managers need to make roles (responsibilities, norms of behaviour) clear to avoid role ambiguity/stress
- Conflicting demands (role incompatibility/conflict) should be avoided



Facilitate work/life boundaries. Clarify role expectations and relationships. Identify positive role models

Individuals

**Groups and  
teams**

Team member  
roles

Team  
development

Building  
a team

Successful  
teams

## Group

A *group* is any collection of people who see themselves as a group.

- A sense of identity: boundaries
- Loyalty and conformity to group norms
- *Purpose and leadership*

### Teamworking

- + Satisfaction of interpersonal relations
- + Satisfaction of participation
- + Pooling of skills, knowledge, experience
- + Efficient sharing of resources
- + Encouraging communication/co-ordination
- + Enables flexibility, speed of response
- Group norms restrict flair (and output)
- Group maintenance distracts from task
- Groups take slower decisions than individuals
- Groups take riskier decisions than individuals

## Team

A *team* is a group formally organised for the purpose of performing a task

### Examples

- Brainstorming teams – for ideas generation
- Multi-disciplinary teams – for skills sharing
- Management or quality teams – for decision-making and problem-solving
- Multi-skilled teams – for flexible working



## Team roles: Belbin

- 1 Co-ordinator:** presides over team activity. (Balanced, disciplined, good at working through others.)
- 2 Shaper:** spurs the team on to action. (Dominant, Extrovert, passionate about the task.)
- 3 Plant:** provides the team with ideas, proposals. (Introverted but creatively intelligent.)
- 4 Monitor-evaluator:** dissects and criticises ideas: spots potential problems. (Analytically intelligent.)
- 5 Resource-investigator:** accesses new contacts and resources. (Extrovert networker; not an originator.)
- 6 Implementer:** translates ideas into practice, plans. (Not a leader, but an essential organiser.)
- 7 Team-worker:** holds the team together, supports members. (Empathetic, diplomatic.)
- 8 Completer-finisher:** chivvies the team to attend to details/deadlines/follow-up.

Belbin added a ninth role: the functional specialist (where required). Roles need to be balanced and (ideally) evenly distributed for an effective team.

Individuals

Groups and  
teams

Team member  
roles

**Team  
development**

Building  
a team

Successful  
teams

## Stages of team development: Tuckman

### 1 FORMING

The group is coming together. Individuals try to find out about each other and the aims and norms of the group.

### 2 STORMING

Aims, procedures and roles (including leadership) begin to be hammered out through more or less open conflict.

### 3 NORMING

The group begins to settle down, reaching agreements on work-sharing, roles and norms. Group decision-making begins.

### 4 PERFORMING

The group is ready to set to work on its task: the process of formation no longer absorbs attention. The focus shifts to results.

### + DORMING

A long-standing, steadily-performing group may get cosy and complacent, and lose its focus on the task.  
(added to Tuckman's model)

**TEAM BUILDING**

**COHESION**  
(‘Sticking together’)

- Reinforce the group’s sense of identity
- Reinforce team solidarity (loyalty, trust)
- Reinforce commitment to shared objectives

**BUT**

*Dangers of ultra-cohesive teams*

- Desire for consensus squashes divergent views → complacent, risky decision making
- Shared responsibility → risky decision-making
- Energy focused on group at expense of task
- Hostility to outsiders → disintegration

‘Groupthink’ (Janis)

**Woodcock: ‘Blockages’ & ‘Building blocks’**

**BLOCKAGES:**

- Inappropriate leadership
- Insufficient mix of members
- Unclear objectives
- Poor achievement
- Ineffective work methods
- Inhibited communication
- Individuals unsatisfied
- Low creativity
- Poor interpersonal relations
- No review/control

**BUILDING BLOCKS**

- ‘Best fit’ leadership
- Co-opt skills, adapt roles
- Clear shared objectives
- Open to learn/improve
- Sensible procedures
- Openness, trust
- Development needs met
- Openness to new ideas
- Climate of co-operation
- Constant feedback

Individuals

Groups and  
teams

Team member  
roles

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development

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a team

Successful  
teams

## Objectives (indicators) of effective team-working

1

*Effective job performance:* meeting task objectives, standards, targets



**Quantitative:** standards, targets

**Qualitative:** external/internal customer satisfaction

2

*Team member satisfaction* with relationships, process and performance



**Quantitative:** turnover, absenteeism

**Qualitative:** communication, expressed attitudes

3

*Effective and efficient team functioning:* co-operation, balanced roles, consensus etc



**Quantitative:** discipline/grievance incidents

**Qualitative:** interest in decisions, motivation in leader's absence

4

*Effective and efficient task functioning:* ideas generation, problem-solving, steady work flow etc



**Quantitative:** output/productivity, workflow, accidents

5

*Fulfilment of the team's role in the organisation:* reflecting values, commitment to goals, projecting image etc



**Qualitative:** ideas generated, seeking causes not symptoms

## Measures:

## 13: Motivating individuals and groups

### Topic List

---

Overview of motivation

---

Content theories

---

Process theories

---

Choosing an approach

---

Rewards and incentives

---

Pay as a motivator

---

*Managers and leaders need to understand motivation if they are to get their staff to perform well. It is also about offering employees the financial and non-financial rewards that will give them satisfaction. This chapter examines the key motivational theories.*

## Motivation

1

'A decision-making process through which the individual chooses desired outcomes and sets in motion the behaviour appropriate to acquiring them.' (Huczynski & Buchanan)

2

The social process by which the behaviour of an individual is influenced by rewards, incentives and sanctions applied by others.

**Extrinsic rewards**

FOR work, eg pay, benefits

**Intrinsic rewards**

IN work, eg responsibility, challenge, interest

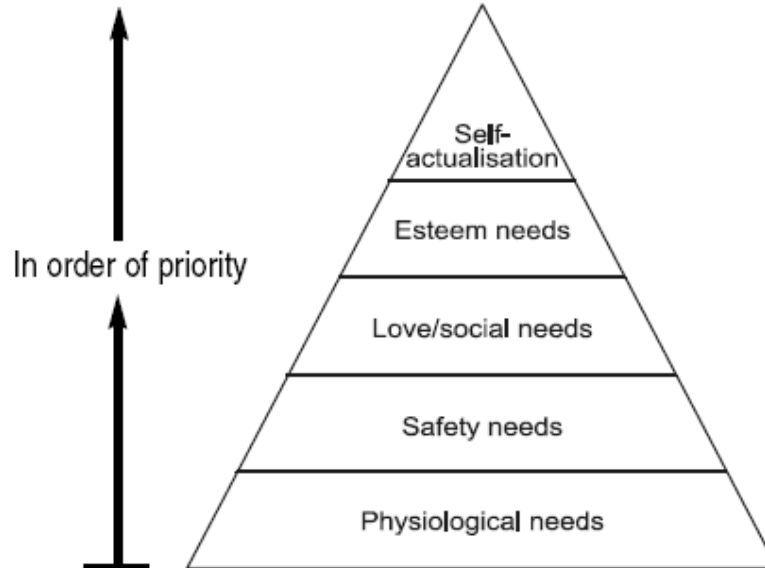
## Motives

'Learned influences on human behaviour that lead us to pursue particular goals because they are socially valued.' (Huczynski & Buchanan)

## Maslow's hierarchy of needs

Content theories ask: 'What (needs or goals) motivate individuals?' They suggest that behaviour is driven by the desire to satisfy certain needs or achieve certain outcomes.

People are motivated by:



cf: David McClelland

- Need for power
- Need for affiliation
- Need for achievement

NB: Not

- Empirically verified
- Predictive
- Culturally universal

Overview of  
motivation

**Content  
theories**

Process  
theories

Choosing an  
approach

Rewards and  
incentives

Pay as a  
motivator

## Frederick Herzberg: Two factor theory

**1**

NEED: TO AVOID UNPLEASANTNESS



Control  
dissatisfaction  
but cannot  
offer lasting  
satisfaction

- Policies, administration
- Pay
- Adequate working conditions
- Quality of supervision

HYGIENE FACTORS

**2**

NEED: PERSONAL GROWTH, FULFILMENT



- Responsibility
- Challenge, interest
- Achievement
- Growth in the job

MOTIVATOR FACTORS

The only way  
to offer job  
satisfaction:  
factors in the  
job itself (see  
page 113)



## Victor Vroom: Expectancy theory

Process theories ask: 'how can individuals be motivated?' They explore the process through which outcomes become desirable and are pursued by individuals

$$E \times V = F$$

### Expectancy

The strength of the individual's expectation that behaving in a certain way will result in a given outcome.

### Valence

The value that the individual places on the outcome (whether positive/desired or negative/undesired).

### Force of motivation

The strength of the individual's motivation to behave in the given way (and the likelihood that he will do so).

The way managers attempt to motivate their teams, and the kind of rewards they offer them, will depend to an extent on the managers' assumptions about workers and their orientations.

## Douglas McGregor: Theory X and Theory Y

**THEORY X** The average person dislikes work and responsibility. Workers must be coerced, controlled and directed in order to make them perform adequately.

NB: Two extreme  
assumptions –  
not 'types' of  
people

**THEORY Y** The expenditure of effort in work is natural and not inherently disliked. People are capable of exercising responsibility and self-direction, being motivated by the desire for growth/achievement

### Managerial objectives of a reward system

- Attract and retain staff
- Increase the predictability of employee behaviour
- Increase employees' willingness to change
- To motivate (provide incentives for) effective performance
- Be equitable

## Reward

A token (monetary or otherwise) given to an individual or team in recognition of some contribution or success.

## Incentive

The offer or promise of a reward, designed to motivate the individual or team to behave in such a way as to earn it.

The job itself can be used as a motivator. A well-designed job should provide five 'core dimensions'.



Overview of  
motivation

Content  
theories

Process  
theories

Choosing an  
approach

Rewards and  
incentives

Pay as a  
motivator

Job satisfaction (which Herzberg considered the basis of all motivator factors) arises from

- Task identity/meaning
- Task significance/importance
- Autonomy or discretion and
- Feedback on performance.
- Skill variety

Herzberg noted that the 'micro-designed' jobs favoured by scientific management are repetitive, meaningless, unimportant, programmed and devoid of feedback! He suggested three ways of redesigning jobs for job satisfaction.

## Job rotation

Transferring the worker sequentially or cyclically from one job to another, to allow task variety. (Sometimes used as a form of training/development.)

## Job enlargement

A 'horizontal' extension of the job by increasing the number of operations or tasks: reducing the cycle of repetition, adding variety. (However, adding more low-skill, meaningless tasks may not be a long-term source of satisfaction.)

## Job enrichment

A 'vertical' extension of the job by adding responsibility, breadth and challenge: giving feedback, removing controls. (Job enrichment is equivalent to 'empowerment' on the level of individual job design.)

In line with the idea of job enrichment, various related concepts have been put forward as potential motivators (or sources of job satisfaction), including:

- PARTICIPATION/INVOLVEMENT
  - Certainty      Participation must be perceived as genuine
  - Consistency      Participation must be persevered with
  - Clarity      The objectives of participation must be clear
  - Capacity      Employees must have the information/ability required
  - Commitment      Management must believe in participation

- ORGANISATION CULTURE
  - (Peters & Waterman) Employees can be 'switched on' to extraordinary loyalty and effort if:
    - The 'cause' is perceived to be great: 'reaffirming the heroic dimension of work' – eg quality, customer, innovation
    - People are treated as 'winners', valued contributors: 'good news swapping' and positive reinforcements

Overview of  
motivation

Content  
theories

Process  
theories

Choosing an  
approach

Rewards and  
incentives

Pay as a  
motivator

### **Pay is an important motivator**

- Money is a means of satisfying many needs (Maslow)
- Herzberg recognised pay's importance in satisfying needs and symbolising/comparing individual worth
- People need money to live
- Some people have an 'instrumental' orientation to work: they put up with deprivations to earn money

### **Pay is a limited motivator**

- Pay cannot (by itself) satisfy 'higher order' needs
- Pay is a 'hygiene' factor: it cannot offer job satisfaction
- People tend to want equitable and sufficient pay – not maximised earnings (at any 'cost').

### Pay levels/structures may be determined by:

- *Job evaluation*: a systematic process of analysing job content (not job holder performance) to determine the 'value' of the job.
- *Negotiation/collective agreements* on pay
- *Perceived fairness (equity)*
- *Market rates of pay*
- *Individual performance* in the job

### Job evaluation methods

- |  |                     |
|--|---------------------|
| ■ <i>Non analytical:</i><br>(whole jobs) | ■ Ranking           |
|  | ■ Classification    |
| ■ <i>Analytical:</i><br>(job components) | ■ Factor comparison |
|  | ■ Points rating     |
|  | ■ HAY-MSL           |

### Payment by results

*Payment by results* (PBR) is related to output (in terms of units produced or time taken).

### Performance-related pay

*Performance-related pay* (PRP) is related to results achieved (in terms of defined standards for key tasks, fulfilment of objectives etc).

## 14: Personal effectiveness and communication

### Topic List

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Personal development plan

---

Time management

---

The role of IT

---

Coaching, mentoring & counselling

---

Communication

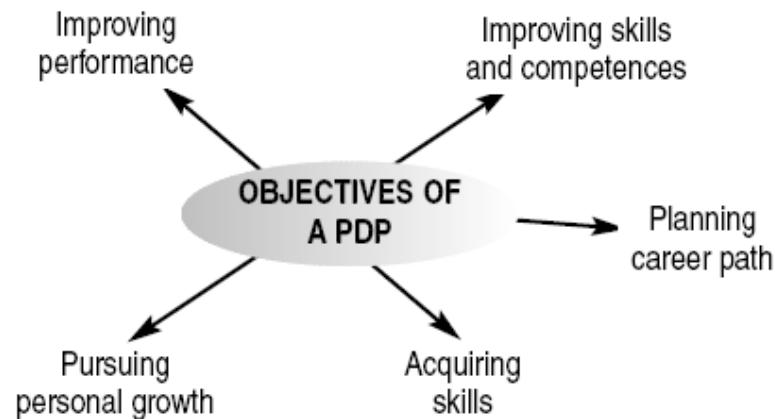
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*This chapter draws together a range of material that relates to how people do their jobs. Beginning with a discussion of personal development plans, it moves through 'personal effectiveness' topics and on to a study of communication. It is only via communication that people know what is to be done, by whom and how.*



## Personal development plan (PDP)

A clear action plan incorporating a wide set of developmental opportunities.

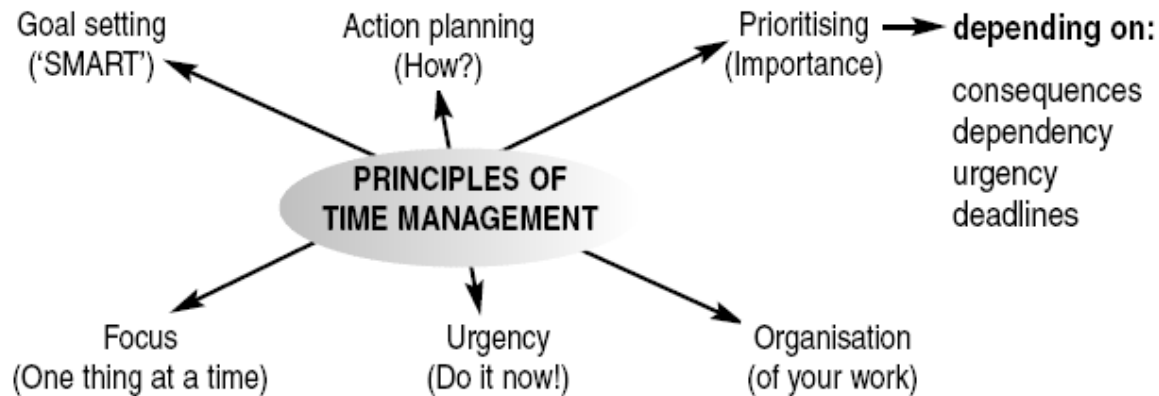


### Systematic approach:

- 1 Select an area for development
- ↓
- 2 Set a learning objective
- ↓
- 3 Research & evaluate relevant resources
- ↓
- 4 Formulate action plan
- ↓
- 5 Secure agreement if need be
- ↓
- 6 Implement

## Time management

The process of allocating time to tasks in the most effective manner.



**How, when and by whom should the work be done?**

Work planning is another skill: allocating tasks; sequencing tasks; scheduling

## Deciding on a communication tool

Depends upon the characteristics of the message.

### Ten common tools

- Conversation
- Meeting
- Presentation
- Telephone
- Fax
- Memo
- Letter
- Report
- Email
- Video conferencing

### Specific technologies include

- Modems & digital transmission
- Electronic data interchange (EDI)
- Mobile telephones (inc web-enabled)
- ISDN/ADSL
- Voice messaging systems
- Computer telephony integration (CTI)
- Computer bulletin boards

Processing of routine data can be done in bigger volume, at greater speed and with greater accuracy.

Managers have MORE information!

## Coaching

Trainee is put under the guidance of an experienced employee ('expert').

- 1 Establish learning targets
- 2 Plan a systematic programme
- 3 Identify opportunities
- 4 Take strengths/limitations into account
- 5 Exchange feedback

## Mentoring

A long term relationship in which a more experienced person fosters personal and career development.

### Features:

- Not usually an immediate superior
- Covers a wide range of functions

↓  
Career  
functions

↓  
Psychosocial  
functions

Personal  
development plan

Time  
management

The role  
of IT

Coaching, mentoring  
& counselling

Communication

## Counselling

Counselling can be defined as 'a *purposeful relationship* in which one person helps another to help himself. It is a way of relating and responding to another person so that the person is *helped to explore* his thoughts, feelings and behaviour with the aim of reaching a clearer understanding ... of himself or of a *problem*, or of the one in relation to the other.' (Rees)



## Communication

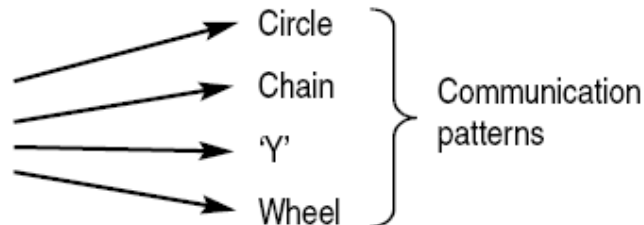
Communication involves the transmission or exchange of information and the provision of feedback. It is required for planning, co-ordination and control.

### How is communication used?

- Giving instructions
- Giving or receiving information
- Exchanging ideas
- Announcing plans
- Comparing results against budget
- Rules or procedures
- Information about the organisation

### How does it flow?

Vertically between ranks  
Horizontally/laterally between peers  
Diagonally between departments



Personal  
development plan

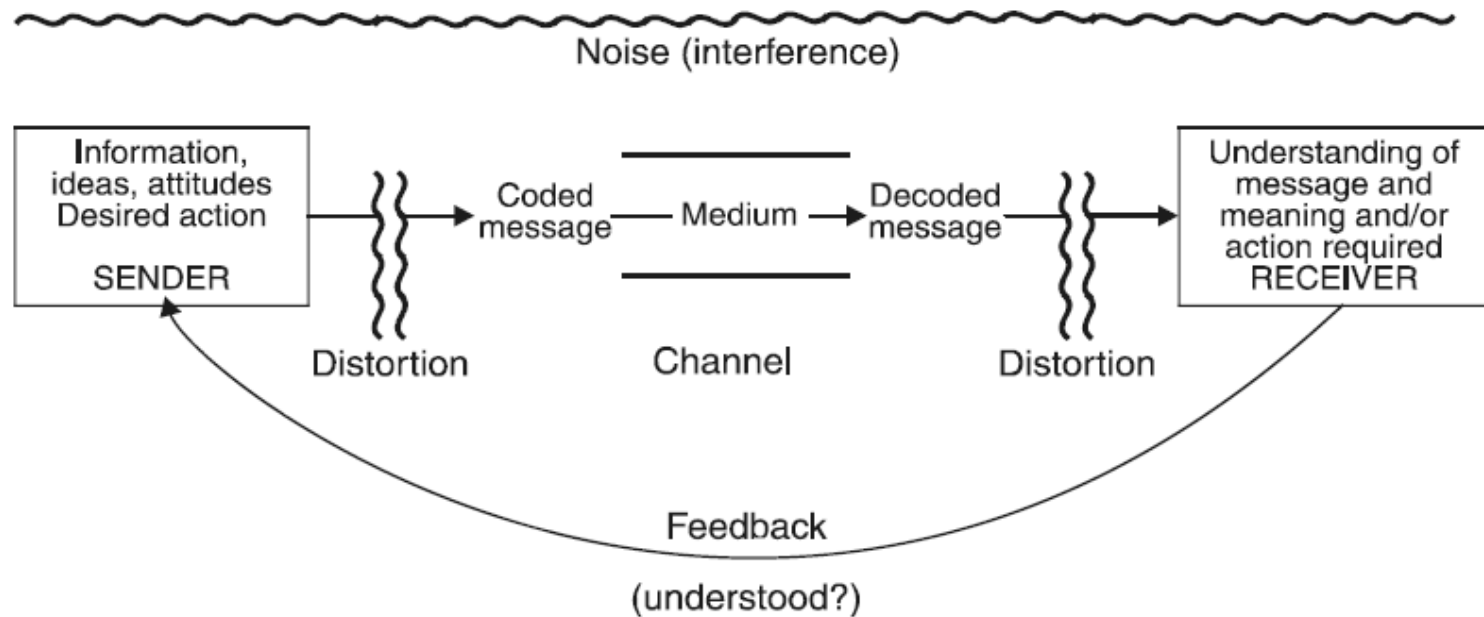
Time  
management

The role  
of IT

Coaching, mentoring  
& counselling

Communication

## The communication process



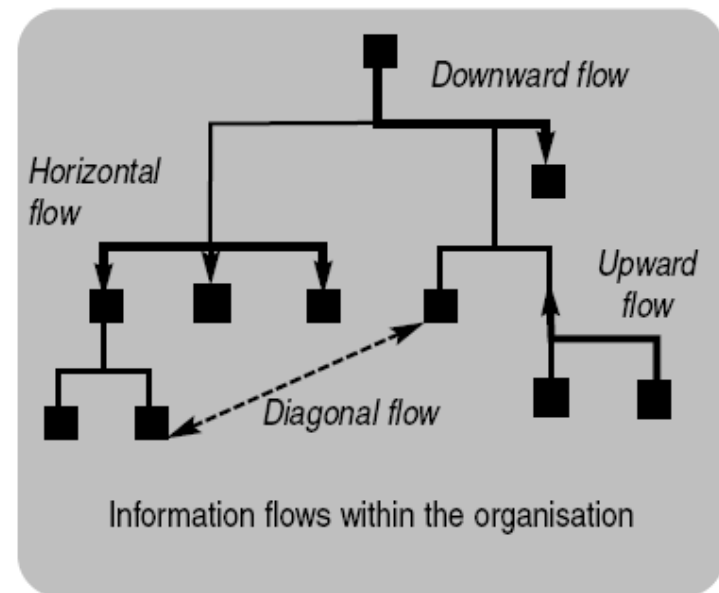
Communication should be: ■ Concise ■ Complete ■ Correct ■ Courteous and ■ Clear (Gowers)

Good communication is important in organisations because:

**Organisational objectives  
depend on:**

- Exchange of information for planning, control, co-ordination, problem-solving etc
- Giving orders and instructions to initiate activity
- Establishment and maintenance of working relationships
- Gathering and exchange of feedback for control, improvement, learning and customer care
- Communication of marketing and public relations messages

'Good' communication is *effective* and *efficient* in achieving its purpose.





## Interpersonal behaviour

*Interpersonal behaviour* is behaviour between people: It includes:

- Interaction between people: two way processes such as communicating, persuading, negotiating etc
- An individual's behaviour in relation to other people: assertiveness, empathy etc.

### Interpersonal skills include:

- Rapport-building: establishing relationships
- Persuasion/influence
- Assertiveness
- Negotiation
- Conflict resolution
- Empathy: understanding others
- Oral/non-verbal communication
- Appropriate roles and relationships

### Assertiveness

Clear, honest, direct communication which respects the rights of self and other: not passive, not aggressive.

### Assertiveness

- Asking clearly and openly for what you want
- Saying 'no' without being defensive
- Receiving feedback/criticism objectively
- Giving criticism constructively

### **Non-verbal communication**

- Posture: way of sitting/standing
- Proximity: nearness to people
- Appearance: grooming, 'style'
- Gestures
- Facial expressions
- Eye contact
- Physical contact: eg handshake
- Non-verbal sounds: eg sigh
- Movements: eg pacing, nodding
- Behaviours: eg yawning
- Silence

NB: Non-verbal cues may emphasise, confirm or UNDERMINE verbal messages.

### **How to be an effective non-verbal communicator**

- Be aware of the variety of non-verbal cues
- Be aware of their different uses and meanings.
- Be aware of your own non-verbal behaviours.  
Use them to provide (or seek) feedback, project a desired image, reinforce spoken messages etc.
- Be aware of the non-verbal behaviours of others.  
Interpret them to gather feedback, recognise underlying messages/responses/feelings etc
- Be prepared to adjust your communication and response strategies.
- Be aware of cultural differences.

### Barriers to communication

- Poor communication skills of sender/receiver
- Failure to give/seek feedback
- Differences in language (including jargon)
- Personal differences ('social noise')
- Conflict: politics or hostility ('emotional noise')
- Inappropriate amount/accuracy/format of information
- Active/implicit discouragement: eg organisations not giving opportunities for upward communication
- Lack of trust in the source
- Poor communication media/channels ('technical noise')
- Poor environment, making oral communication inaudible ('physical noise')

### Methods of improving communication

- Encourage, facilitate and reward communication using all HR systems and cultural methods
- Model good practice from the top
- Create opportunities for multi-directional communication (especially upwards)
- Give training in communication skills
- Give awareness training in difference/perceptions
- Manage interpersonal conflict
- Break down artificial functional/status barriers
- Adapt communication systems, tools and technologies for greater efficiency/effectiveness
- Use the informal communication system to reinforce networking, information-sharing culture

### Oral communication

- *Face to face* (eg meetings, interviews)

Particularly good for:

- generating new ideas
- sharing information sensitively
- real-time checking/questioning
- interpersonal interactions

- *Remote* (eg by telephone)

Particularly good for:

- personal communication over distance
- swift communication in real time

*Oral communication skills include*

- Appropriate language and usage
- Clear, audible, expressive, delivery
- Effective active, critical or empathetic listening

### How to be an effective listener

- Be prepared to listen
- Be interested: listen ACTIVELY
- Be patient: wait your turn
- Keep an open mind: avoid prejudice
- Use your critical faculties
- Concentrate: don't get distracted/side-tracked
- Give feedback: encourage, ask, confirm
- Use non-verbal cues

### Factors in the choice of media

- *Time* required to prepare/send the message (and time differences with the message destination)
- *Complexity*: need for illustration/real-time explanation?
- *Confirmation*: need written record (eg for legal purposes)?
- *Interactivity*: need for real-time responses, questions?
- *Confidentiality*: need for security?
- *Dissemination*: need for large simultaneous audience?
- *Sensitivity*: personal tact/support/empathy?
- *Cost* of all the above: most effective medium at justifiable expense

### Oral media

- Telephone/teleconferencing
- Interviews/discussions
- Meetings/committees/briefings
- Presentations

### Written media

- Forms
- Notices/posters
- Journals/bulletins/manuals/handbooks
- Letters
- Memoranda
- E-mails
- Reports

NB: The 'medium' is the vehicle (eg letter, e-mail, poster): the 'channel' is the route (eg post, Internet, notice board)

### Written communication

- Correct grammar/syntax/punctuation
- Choice of vocabulary to suit recipient
- Choice of structure to suit recipient and purpose of communication
- Suitable time and style to suit purpose of communication
- Legibility!
- Appropriate use of visual aids
- Attention to conventions of format and house style (where appropriate)

### Example

#### REPORT FORMAT

##### REPORT TITLE

#### I INTRODUCTION

Or 'Executive Summary', 'Terms of Reference' or 'Background'

#### II ANALYSIS

Appropriately headed sections with body of report

#### III CONCLUSIONS

Or 'Recommendations' or 'Summary'

## 15: Recruitment and selection

### Topic List

---

Recruitment & selection

---

The recruitment process

---

Advertising vacancies

---

A systematic approach to selection

---

Selection methods & testing

---

Evaluating recruitment practices

---

*Recruitment and selection are core activities in Human Resource Management, broadly aimed at ensuring that the organisation has the human resources that it needs. This chapter examines the processes involved.*

Recruitment  
& selection

The recruitment  
process

Advertising  
vacancies

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Evaluating recruitment  
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## Recruitment

The definition and communication of HR requirements in order to obtain applicants.

## Selection

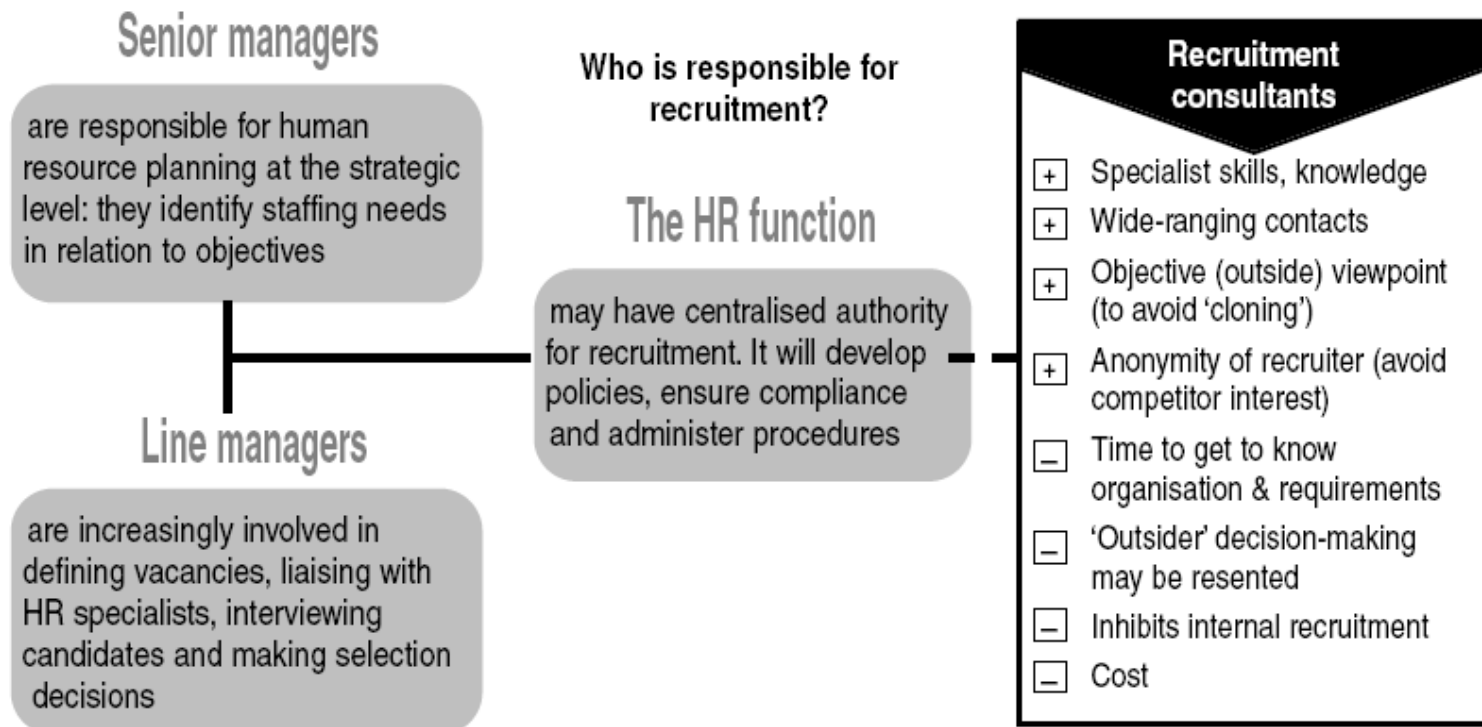
The process of choosing the most suitable applicants for employment.

### Stages

- 1 DEFINE REQUIREMENTS
- 2 ATTRACT APPLICANTS
- 3 SELECTION THE APPROPRIATE CANDIDATE

Employees represent a scarce and crucial resource which must be obtained, retained, developed and mobilised for organisational success.





Recruitment  
& selection

**The recruitment  
process**

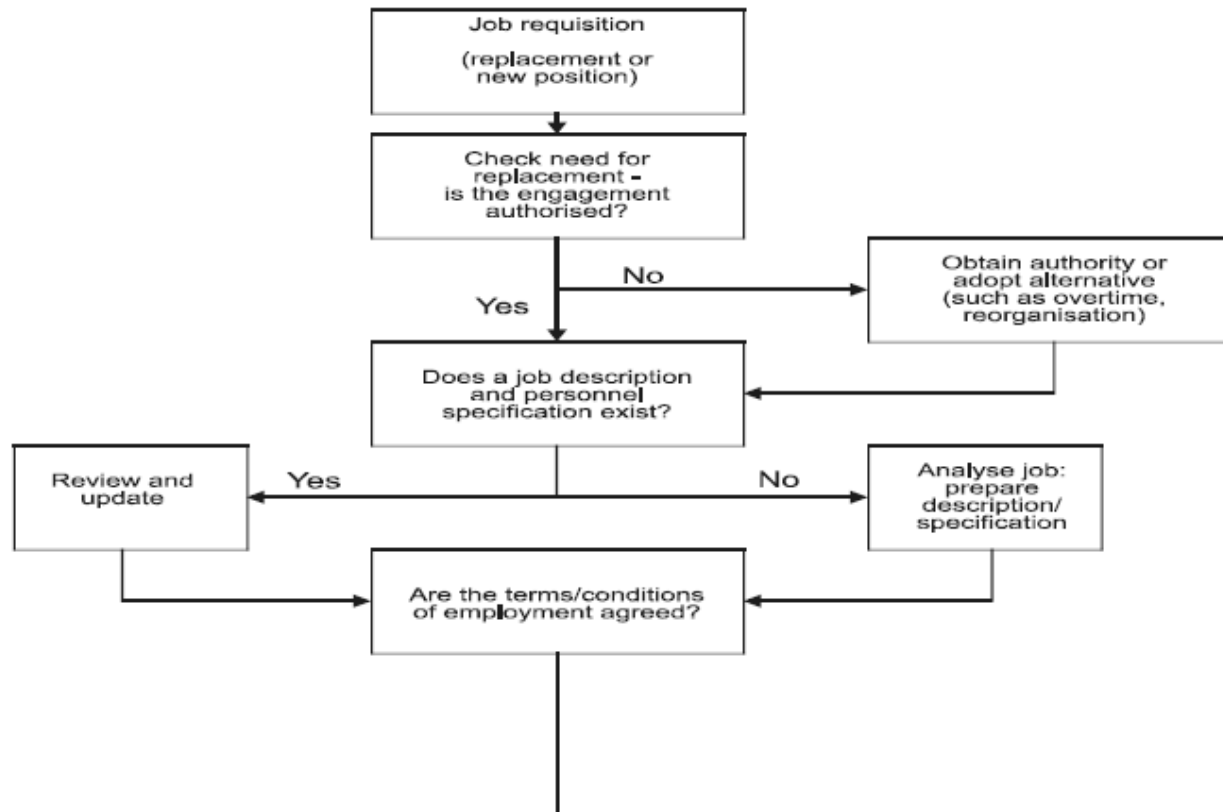
Advertising  
vacancies

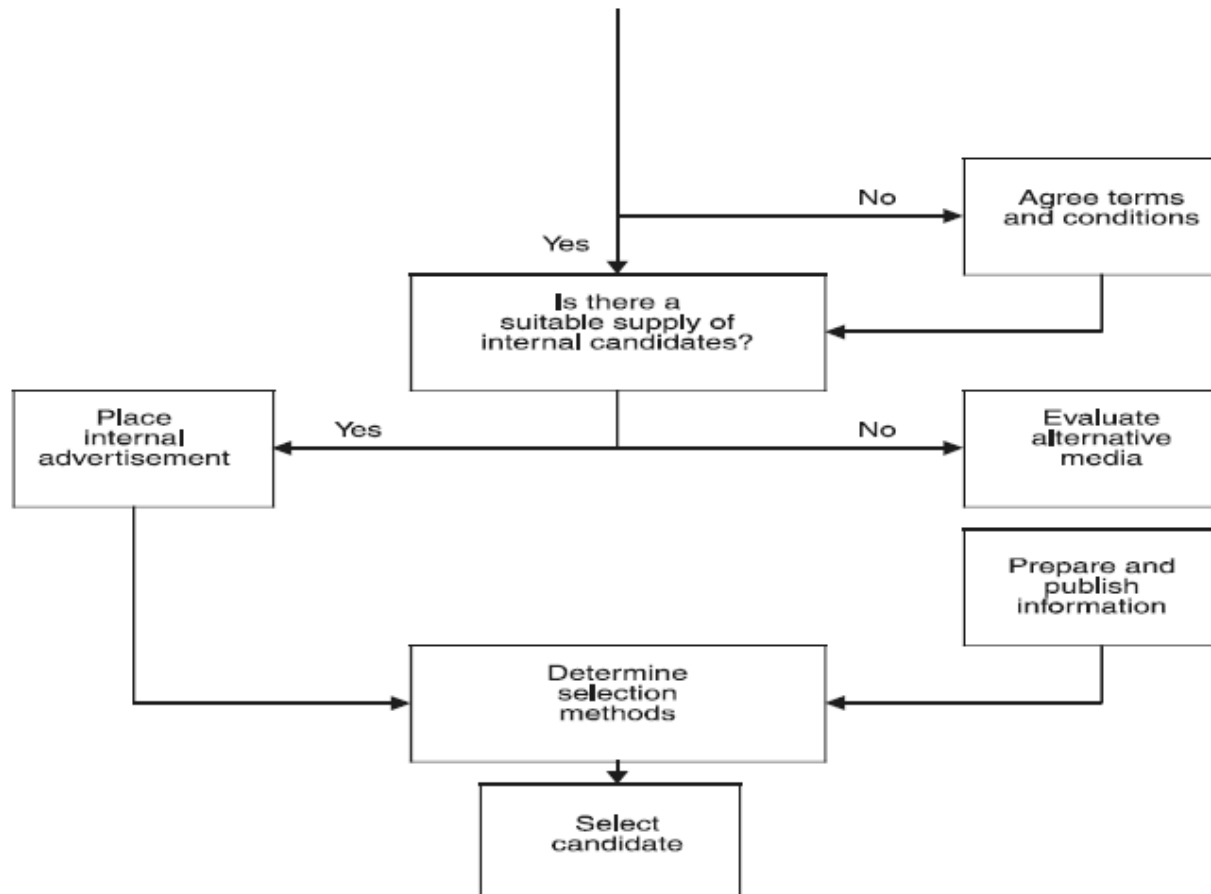
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### The Recruitment Process





Recruitment  
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## Job analysis

This determines the requirements for a job, which are then set out in a job description. Job analysis concentrates on what job holders are expected to do.

### What information is needed?

- Purpose of the job
- Content of the job
- Accountabilities
- Performance criteria
- Responsibility
- Organisational factors – reporting lines
- Developmental factors – promotion paths
- Environmental factors – working conditions

Note too that more attention is being paid to outlining and developing  
**COMPETENCES:**

- Behavioural/personal
- Work-based

## Job description

A job description is a written statement of facts which are important in a job regarding tasks, responsibilities, conditions and organisational/operational relationships.

### Content

- Job title
- Reporting relationships
- Job summary
- Key accountabilities/tasks
- Principal operational contacts
- Unusual working conditions
- Employment terms and conditions
- Date job description prepared



Job descriptions have a 'use by' date!

### Uses of job descriptions

- In recruitment, to formulate requirements and to match jobs to candidates' capacities
- In job evaluation, to establish wage rates
- In appraisal, training and development to identify competence gaps or potential
- In organisation design and change management, to appraise job design and HR needs

### However...

- They only suit predictable, repetitive work
- They go out of date as jobs change
- They can be taken too literally/rigidly
- Flexible working redefines 'jobs' as 'roles'

## Person specification

A *person specification* sets out the education, qualifications, training, experience, personal attributes and competence a job holder requires to perform the job satisfactorily.

- ESSENTIAL
- DESIRABLE
- CONTRA-INDICATED  
(un-desirable)

} attributes, organised by

Note that while a job description sets out the content of the *job*, the person specification reformulates the information as a profile of the satisfactory/*ideal job holder*.

### Seven point plan Professor Alec Rodger

- Physical attributes
- Attainments (including qualifications)
- General intelligence
- Special aptitudes
- Interests
- Disposition (manner, temperament)
- Background circumstances

**An effective job advertisement:**

- Includes job, person and organisation factors
- Is concise, but gives sufficient information to attract interest and allow self-selection
- Is designed to attract suitable candidates
- Is honest about the job and organisation, to manage expectations
- Clearly states the requirements (and rewards) of the vacancy
- Specifies how, when and to whom to apply
- Is presented in line with corporate style
- Is formatted for, and transmitted by, appropriate advertising media

**Media for job ads**

- In-house noticeboard, journal, intranet
- Professional/specialist journals/newspapers
- Newspapers: national, local, free
- Radio/TV/cinema: national, local
- Job centres and other registers
- Careers offices: school, universities
- The Internet: registers, own website

Type of job?

Type/number of users?

Relevant circulation?

Frequency of ad required?

Geographical coverage required?

Organisational image?

Cost of right mix of above?

Recruitment  
& selection

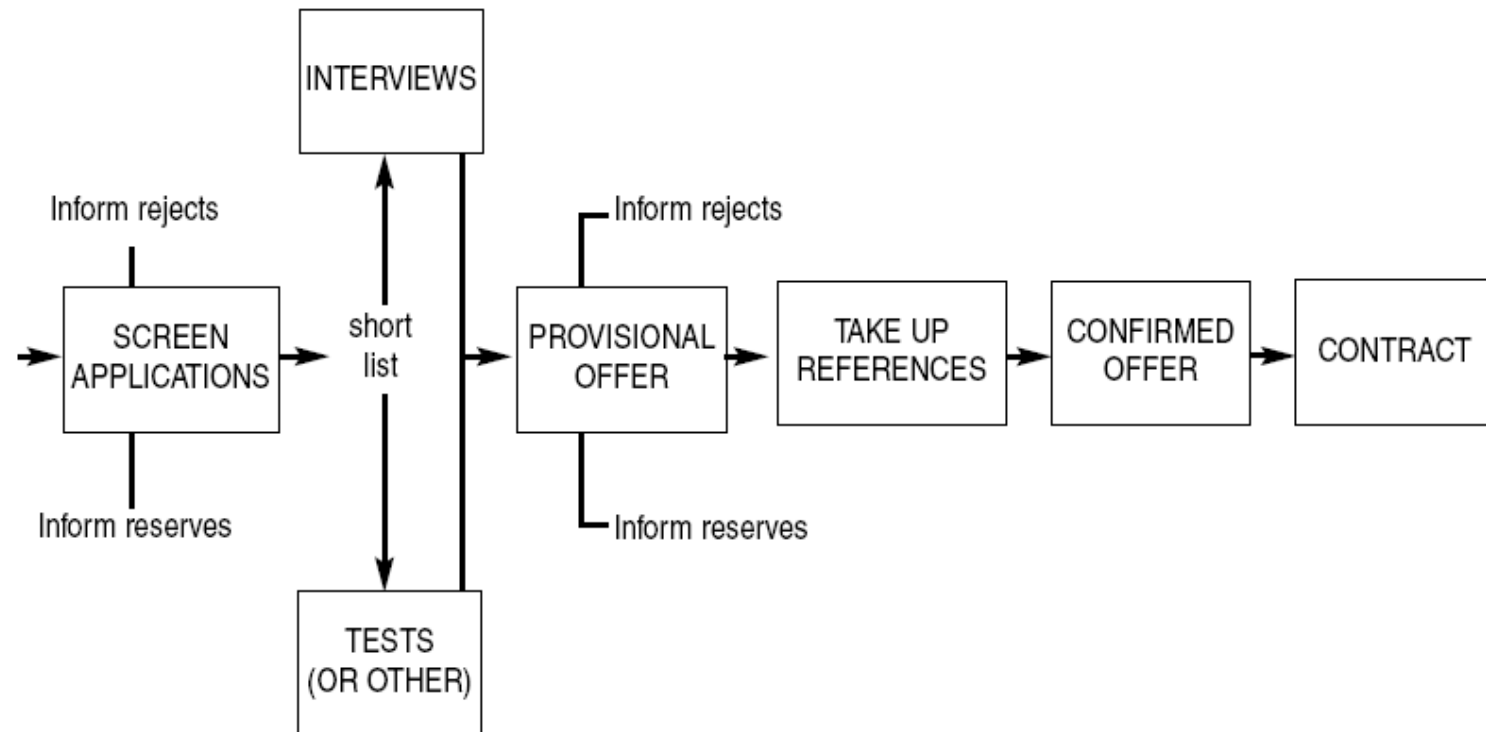
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Interviews are the most commonly used selection method – although they are notoriously unreliable for predicting job performance!

## Purposes of interviews

- 1** Finding the best person for the job: direct assessment of the candidate
- 2** Giving candidates the information they require to make a decision
- 3** Giving a positive impression of the organisation
- 4** Ensuring that all applicants are (and feel they have been) treated fairly (as required by law)

## Limitations of interviews

- They are limited in length/scope
- They are artificial situations, which distort candidates' 'normal' behaviour
- They are limited in relevance: not able to assess the full range of required attributes
- Interviewers often make errors of perception and judgement: bias, stereotyping etc
- Interviewers are often insufficiently trained and/or prepared to direct discussion effectively, probe for answers and so on.
- Interviewers often fail to give sufficient, honest or relevant information to the candidate

**Effective interviewing**

- Use consistent, specific, relevant criteria, as set out in the job description, personnel specification
  - Minimise stressful dynamics
  - Directly monitor job-relevant communication, interpersonal and problem-solving skills
  - Bias should be controlled by interviewer awareness training and (where possible) checking with other interviewers (panels, boards)
  - Train interviewers in effective techniques
  - Allocate sufficient time and resources
  - Give candidates opportunity to seek information
  - Evaluate process in the light of successful candidates' performance
- Using appropriate questioning styles
  - Pacing and controlling discussion
  - Building (and standing back from) rapport/empathy
  - Active listening to surface and subtext
  - Avoiding direct and indirect discrimination

?

OPEN: Who? What? How? Why?

CLOSED: Did you ...? (Answer: yes or no)

PROBING: But what in particular ...?

MULTIPLE: How ... and why ...?

PROBLEM SOLVING: How would you ...?

LEADING: Don't you ...? Surely you ...?

### Other selection methods include:

- *Work sampling* Perusal of the candidate's portfolio, or setting work exercises
- *Group selection* Suitable for in-depth assessment of management candidates
- *Reference checks* To confirm details and get third-party view of candidate's employability
- *Biodata surveys* Biographical data correlated to successful performance

'Assessment centres' use role plays, case study analysis, leaderless group discussion, business games and other techniques to allow expert analysts to appraise a range of problem-solving and interpersonal skills which emerge in the group.

References should confirm facts, but also reveal opinions. Referees may be cautious, or biased: references have very low 'predictive validity'.

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### Selection tests

#### Types

- Proficiency
- Aptitude
- Intelligence
- Personality
- Case studies  
Role plays  
'In-tray' exercises

#### Designed to measure

- Ability to perform specific tasks (eg typing)
- Potential to exercise or learn skills (eg numeracy)
- IQ, usually: mental agility, verbal reasoning
- Traits and types (eg introvert/extrovert)
- Ability to perform in simulated job tasks and situations

It is very difficult to exclude cultural and even gender bias from tests.

#### But:

- Not all jobs are amenable to proficiency testing: eg management
- Tests are subject to practice/coaching effects: style (or content) of questions becomes familiar
- Intelligence is difficult to define: IQ must be supplemented by EI (emotional intelligence), creativity etc.
- Personality test results are subject to 'faking': the desirable answer is often obvious
- Suffer from time/ability constraints
- All tests require expert administration and result interpretation

**Recruitment and selection can be  
evaluated by:**

- *Using attitude surveys and feedback questionnaires*  
To assess candidates' experience and perceptions of the organisation
- *Monitoring the job performance and development of recruits*  
To assess accuracy of predictions made during recruitment/selection
- *Monitoring the composition of – and change in – the workforce*  
To assess the effectiveness of equal opportunity measures, the turnover of recruits and so on.
- *Monitoring specific performance indicators*

**Examples**

- Number of candidates attracted by different media
- Number of suitable (shortlisted) candidates attracted
- Number of women/ethnic minorities applying
- Number of women/ethnic minorities selected
- Cost per short-listed or successful candidate
- Cost-effectiveness of each medium used
- Average time taken to process each application
- Post-selection performance of candidates
- Proportion of recruits still employed two years later

## 16: Diversity and equal opportunities

### Topic List

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Discrimination at work

---

Equal pay & equal opportunity

---

The practical implications

---

Diversity

---

*Social, demographic and policy changes have steadily increased the diversity of the labour pool (more working women; older workforce). The law protects the rights of various previously disadvantaged groups to equal opportunity; managing workforce diversity is a key issue for HR policy and practice, and management in general.*

## Equal opportunities

An approach to the management of people at work based on equal access and fair treatment – irrespective of gender, race, ethnicity, age, disability, sexual orientation or religion.

### Where can discrimination occur?

- Access to jobs
- Training
- Promotion
- Pay
- Benefits



Need to redress inequalities

Discrimination on basis of gender, race or disability are enshrined in law. Others (eg age) rely upon models of 'good practice'.

### Business arguments in favour of equal opportunities

Ethical  
and  
fair

Good  
HR  
practice

Compliance  
with  
legislation

Wider  
pool of  
labour

Image  
and  
reputation

The Equal Pay Act 1970/Equal Pay (Amendment) Regulations 1984: men and women have the right to equal pay for work of equal value.

## Sex

### **Sex Discrimination Act 1986**

Prohibits discrimination on grounds of sex/  
marital status

- Advertisements
- Recruitment and selection
- Access to training
- Promotion
- Disciplinary procedures
- Selection for redundancy
- Dismissal

also  
applies  
to

## Race

### **Race Relations Act 1996**

Outlaws certain types of discrimination on  
grounds of colour, race or nationality.

### **Race Relations Amendment Act 2000**

Larger public organisations (150+  
employees) must have detailed plans for  
achieving racial equality.

There are three types of discrimination under the Acts.



Discrimination  
at work

Equal pay &  
equal opportunity

The practical  
implications

Diversity

## Direct discrimination

occurs when one interested group is treated less favourably than another.

## Indirect discrimination

occurs when certain requirements or conditions are imposed, with which a substantial proportion of the interested group could not comply.

## Victimisation

occurs when a person is penalised for giving information or taking action in pursuit of a claim of discrimination.

(In addition, **harassment** is the use of threatening, intimidatory, offensive or abusive language or behaviour.)

Under both sex and race discrimination law, there are certain exemptions ('genuine occupational qualifications') in which discrimination of a sort may be permitted, eg physiology, decency or legal restrictions.

## Disability

Covered by the **Disability Discrimination Acts 1995 and 2005**. Disability is defined as physical or mental impairment that has a substantial/long term adverse effect on ability to carry out normal activities.

### Covering access to:

- Employment opportunities
- Interview
- Selection
- Training
- Promotion
- Dismissal

## Age

**Employment Equality (Age) Regulations 2006** prohibit unjustified age discrimination in employment and vocational training; support later retirement and retirement planning; remove upper age limits for unfair dismissal and redundancy rights.

## Implementing equal opportunity policy

- 1 Secure support from the top management: create senior accountabilities
- 2 Set up a representative working party to produce a draft Code of Practice
- 3 Formulate action plans and allocate resources to publicise/implement policy
- 4 Implement monitoring and review of minority staff entering/progressing/leaving
- 5 Plan and implement *positive action initiatives* to facilitate minority access to opportunities

### Examples

- Use ethnic languages in job ads
- Offer family-friendly working hours/contracts: term-time hours, part-time working etc
- Alter premises/equipment to accommodate wheelchair users, partially-sighted/deaf workers
- Extend 'spouse' benefits to same-sex partners
- Fast-track school leavers and post managerial vacancies internally -> more opportunities at lower levels
- Awareness training for management
- Workplace childcare or childcare allowances
- Encourage networking of minority business people

## Diversity

The concept of *diversity* recognises that 'equal opportunity' categories (gender, race, age) are only crude, irrelevant classifications. Effective managers seek to recognise more job-relevant, complex ways in which people differ: personality, working style, needs and expectations. Managers need to facilitate the unique contribution that each person – not each 'category' of person – brings to the team.

Support for:

- Communication
- Education/training
- Career development
- Recruitment/selection
- Work/life balance

to reflect diversity.



- Managing co-operative working in diverse teams
- Tolerance of individual differences
- Communicating effectively with an ethnically diverse workforce
- Managing workers with diverse family structures and responsibilities
- Managing the adjustments to be made by an ageing workforce
- Managing diverse career paths and aspirations
- Confronting educational/qualification issues in an international workforce

## Key steps in implementing a diversity policy

- 1 Analyse the business environment
- 2 Identify the business benefits of diversity
- 3 Introduce diversity into corporate strategy
- 4 Include it in core HR systems
- 5 Ensure top management support
- 6 Involve staff at all levels
- 7 Communicate, communicate, communicate!
- 8 Understand the company's needs and resources
- 9 Evaluate

## 17: Training and development

### Topic List

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The learning process

---

Development & training

---

Training needs & methods

---

Responsibility for training & development

---

Evaluating training programmes

---

Development

---

*Employees are resources to be developed, not just costs to be controlled. How people learn, and how they should be trained, is very relevant to organisational performance and should be approached systematically. At the core of this topic is the need to ensure that trainee learning is applied in the work context. Development constitutes a wider topic, and involves more than merely improving job performance.*

The learning  
process

Development  
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Training needs  
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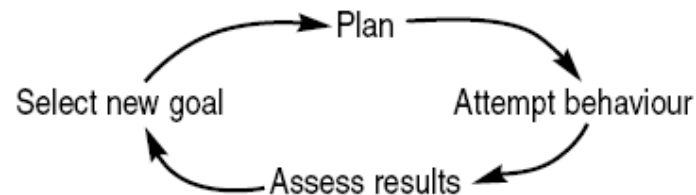
Evaluating training  
programmes

Development

## Behaviourist theory

Stimulus → Response ☐ negative reinforcement  
Stimulus → Different response ☒ positive reinforcement  
Stimulus → Repeat successful response

## Cognitive theory



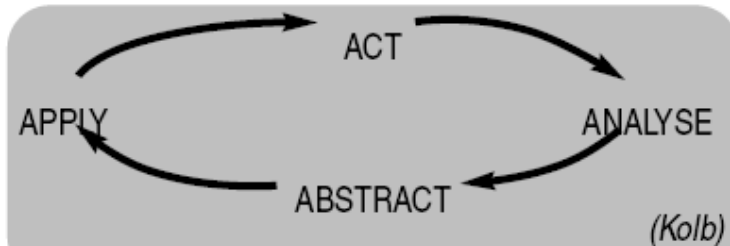
**Learning theory suggests that:**

- motivation
- objectives
- feedback
- positive/negative reinforcement are key to effective training

## Learning styles

- *Theorists* prefer to understand principles
  - *Reflectors* prefer to think things through first
  - *Activists* prefer to try things, 'hands on'
  - *Pragmatists* prefer to work with real tasks/problems
- (Honey & Mumford)

## Learning cycle



The learning  
process

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## Learning organisation

A *learning organisation* is one that facilitates the acquisition and sharing of knowledge, and the learning of all its members, in order continuously and strategically to transform itself in response to a rapidly changing and uncertain environment.



### Learning organisations:

- Keep plans and decisions flexible
- Insist on data rather than guesswork
- Encourage experimentation and questioning
- Regard risks and failures as learning tools
- Gather information from all possible sources
- Share information through formal/informal networks
- Seek out learning opportunities
- Develop HR policies to support flexibility
- Develop management styles to support flexibility
- Focus training on 'learning how to learn'



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In order to achieve its goals, an organisation requires a skilled workforce.

## Training

Planned programmes and instruction which enable people to achieve a higher level of knowledge, skills and competence.

## Development

Growth of a person's ability and potential through the provision of learning.

## Education

Knowledge acquired gradually, through a process of learning and instruction.

### Development planning

- 1 Identify necessary skills
- 2 Draw up development strategy
- 3 Implement

## Benefits of training

### for the organisation

- Increased skills/knowledge: enhanced job performance
- Attraction and retention of quality labour
- Improvement of skill base: adding value to the human assets of the business
- Enhanced workforce flexibility
- Enhanced managerial succession
- Better quality and customer service, for competitive advantage
- Fewer errors, complaints, accidents
- Less need for detailed supervision and managerial interventions

### for the trainee

- Enhanced competence → sense of achievement, self-esteem, security of greater employability
- Satisfaction from greater contribution to business success, quality etc.
- Opportunities for career development and increased rewards
- Opportunities to extend own skills, interests

**NB: Training is not a substitute for effective selection, organisation and supervision! Not all problems are amenable to training. Training must also be effectively planned, designed and managed.**

The learning  
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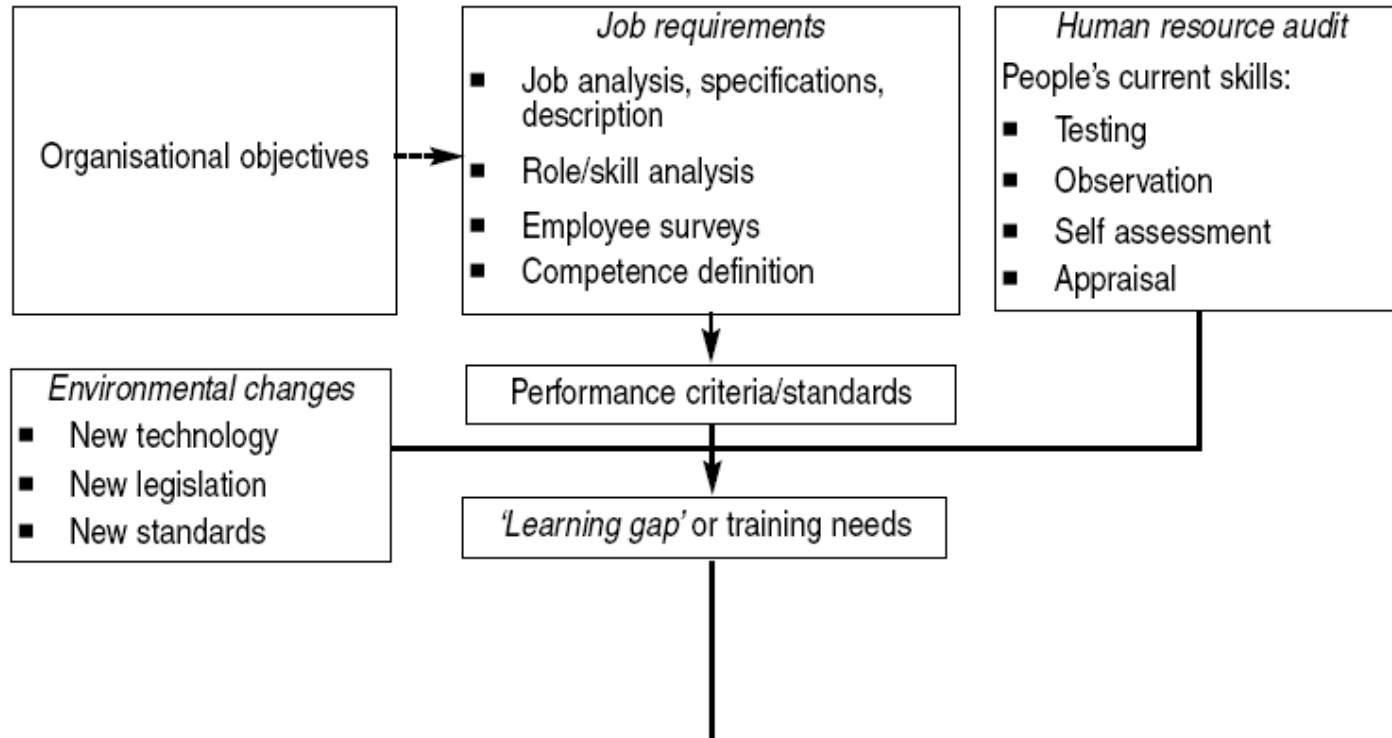
Responsibility for  
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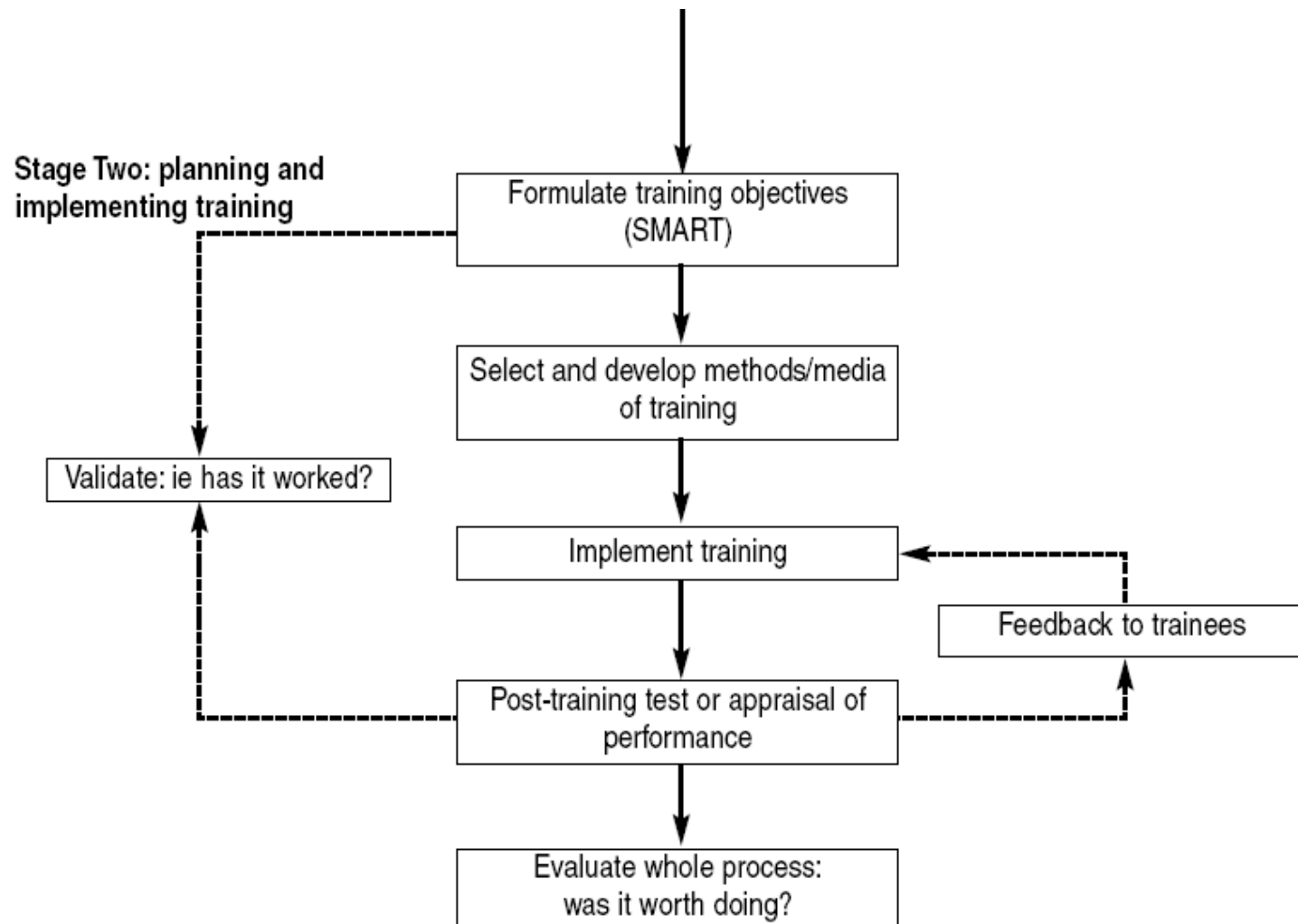
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## A systematic approach to training

### Stage One: training needs analysis





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### Off-the-job training methods include:

- |                                    |   |  |
|------------------------------------|---|--|
| ■ Training room instruction        | } | In-house training facilities<br>OR external training<br>providers – accessed via<br>training leave, day<br>release, evening classes<br>etc |
| ■ Lectures/taught classes          |   |  |
| ■ Case study analysis              |   |  |
| ■ Role plays                       |   |  |
| ■ Simulations/in-tray exercises    |   |  |
| ■ Visits and tours                 | } | Off-site training events   |
| ■ Outdoor training                 |   |  |
| ■ Distance or open learning        | } | Flexible, use-anywhere<br>training packages  |
| ■ Computer/video-based<br>learning |   |  |

*Training technologies* include video, interactive video, on-line and various computer based training methods.

### Off-the-job methods

- ☐ + Allow experimentation without risk, pressure of work
- ☐ + Away from interruptions, distractions of work
- ☐ + Can allow for own-pace study
- ☐ + Suit theoretical learners
- ☐ – May not relate directly to task or job context
- ☐ – Less immediate motivation and feedback for learning
- ☐ – Does not suit all learners
- ☐ – Can create anticlimax on return to work

### On-the-job training methods include:

- |                                   |                               |
|-----------------------------------|-------------------------------|
| ■ <i>'Sitting with Nellie'</i>    | Observation/imitation         |
| ■ <i>Job instruction</i>          | Demonstration/explanation     |
| ■ <i>Coaching</i>                 | Guidance, advice, teaching    |
| ■ <i>Job rotation</i>             | Gaining work experience       |
| ■ <i>Temporary promotion</i>      | Gaining management experience |
| ■ <i>'Assistant to' positions</i> | Shadowing managerial work     |
| ■ <i>Committee/project work</i>   | Exposure to other functions   |
| ■ <i>Apprenticeships</i>          | Mix of off- and on-the job    |

### On-the-job methods

- ☐ + Relevant to job skills
- ☐ + 'Fit' with job context
- ☐ + Establish work relationships
- ☐ + Suit active/pragmatic learning styles
- ☐ - Depend on training skills of fellow workers/supervisors
- ☐ - Risk, pressure, distraction of 'real' work context
- ☐ - May train unhelpful methods/culture
- ☐ - Requires tolerance of error

## Induction training

*Induction training* is the introduction of new recruits to the job, work place and work group. It begins an on-going process of development.

Orientation to workplace    ■    Introduction to work, superior and team    ■    Briefing on policies, rules    ■    Plan mentoring, initial training and so on

The learning  
process

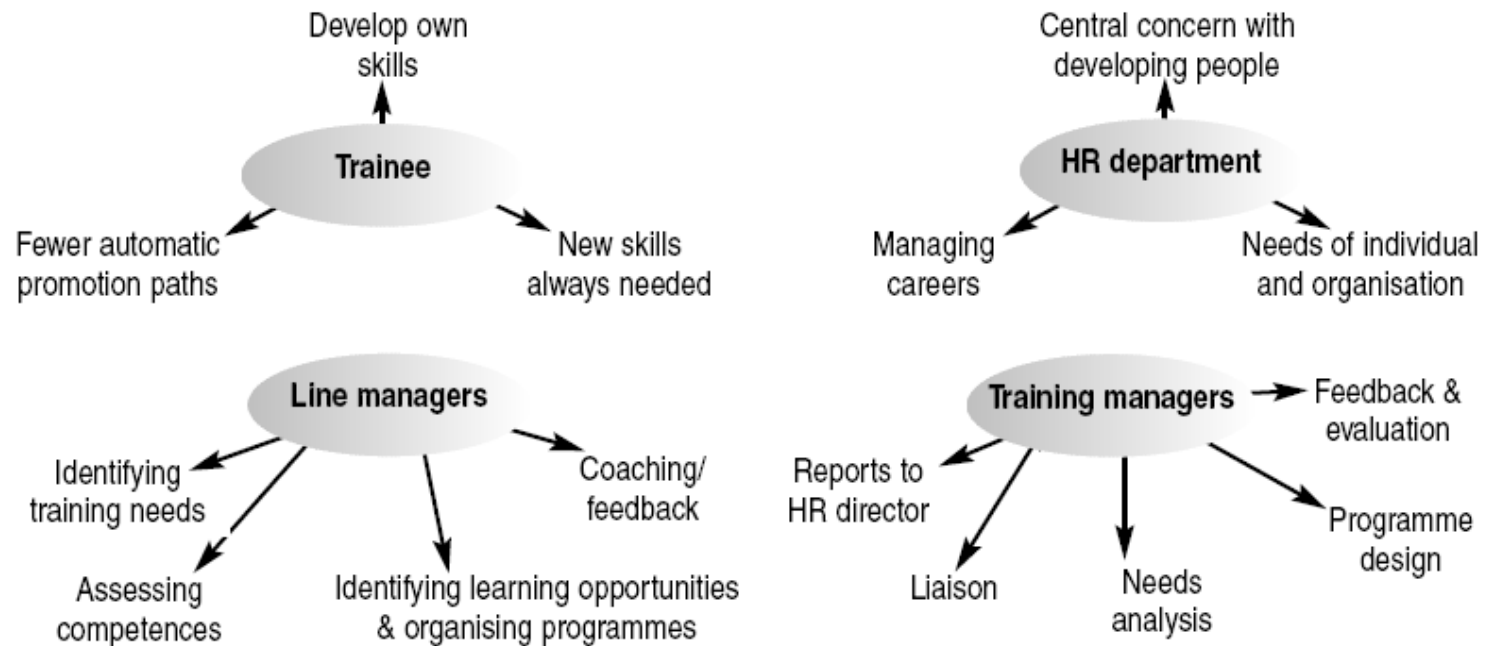
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Responsibility for training therefore lies with the individual, in collaboration with managers and HR professionals.

## Validation of training

*Validation* of training is measuring the results of the programme against its objectives: has it been effective in achieving its goals?

### Validation

- Appraise the work performance of trainees for general or specific improvement
- Assess the effect of training on team and organisation performance, for integrated improvement
- Monitor the on-going development of trainees for influence on promotability/succession

## Evaluation of training

*Evaluation* of training is analysing the costs of the programme against its benefits: has it been worthwhile?

### Evaluation

- Test post-training knowledge/skills for comparison with pre-training tests
- Survey the satisfaction of trainees, via feedback forms, attitude survey or appraisal
- Analyse indicators of 'knock-on' effects: labour turnover, disciplinary actions, suggestions etc.



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'Development' is a wider concept than training, although training provides learning and educational experiences for development.

### Skill/competence development

Acquiring job-relevant knowledge, skills etc through education and training.

### Career development

Identifying career aspirations and planning progression through:

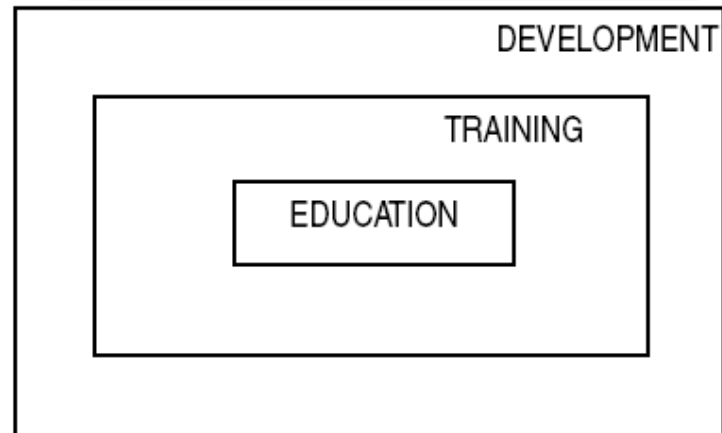
- Gathering different experiences
- Using mentors and role models
- Accepting opportunities and challenges

### Personal development

Seeking wider learning experiences, to meet self-actualisation needs and goals.

### Employability development

Acquiring a portfolio of experience/competence that enhances mobility/value in the labour market.



## 18: Performance appraisal

### Topic List

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Performance management & assessment

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The purpose of performance appraisal

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The process of performance appraisal

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Barriers to effective appraisal

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How effective is the appraisal scheme?

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*Appraisal is one of the control systems of the organisation – improving organisational efficiency by ensuring that individuals within it are performing to the best of their ability and potential. It should be a forward looking, problem-solving, collaborative process, set firmly within with organisational context and regularly evaluated.*

## Key features of performance measurement

Aspect	Comment
<b>Agreed framework of goals, standards and competence requirements</b>	The manager and the employee agree about a standard of performance, goals and the skills needed.
Performance management is a process	Managing people's performance is an on-going activity, involving continual monitoring and assessment, discussion and adjustment.
<b>Shared understanding</b>	The goals of the individual, unit and organisation as a whole need to be integrated: everyone needs to be 'on the same page' of the business plan.
Approach to <b>managing and developing people</b>	Managing performance is not just about plans, systems or resources: it is an <b>interpersonal</b> process of influencing, empowering, giving feedback and problem-solving.
<b>Achievement</b>	The aim is to enable people to realise their potential and maximise their contribution to the organisation's success.

The general purpose of appraisal is to improve the performance of the organisation.

### **Purposes of performance appraisal**

- Establishing key results which a job holder needs to achieve for effective working
- Identifying improvement/training needs
- Identifying performance deserving merit pay awards
- Identifying areas in which work methods, technology and other factors could better support performance
- Identifying candidates for promotion/succession
- Assessing organisational competences to aid HR planning
- Encouraging communication about performance
- Creating a culture of openness to feedback, problem-solving and continuous improvement

### **Why have a formal system?**

On-going informal feedback on performance is an important part of management, but:

- Managers may obtain only random impressions based on most recent/obvious incidents
- Negative aspects may get more attention than positive
- Feedback may be sporadic, subjective, hasty and inconsistent in applying criteria

Formal appraisal makes both appraiser and appraisee accountable for their judgements, responses and follow-up actions.

Performance  
management & assessment

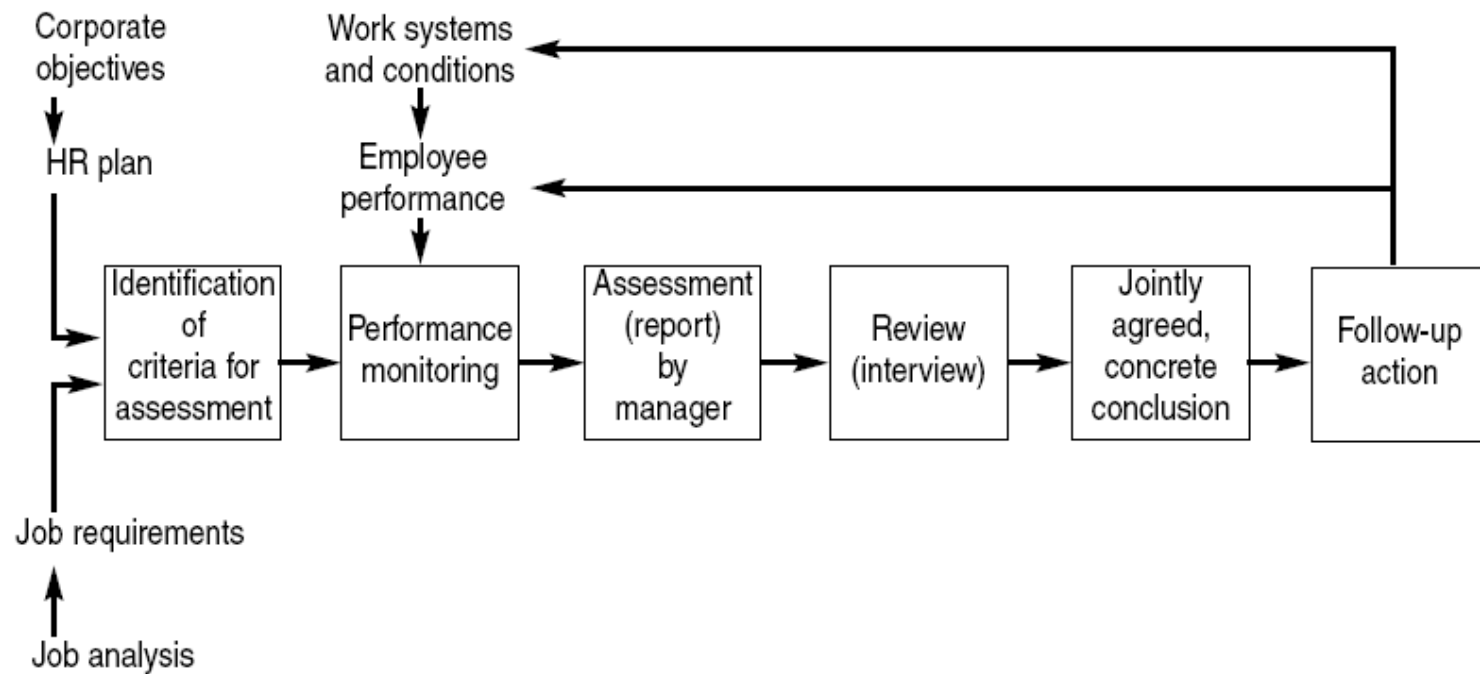
The purpose of  
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How effective is the  
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### Performance appraisal control system



Appraisal techniques refer to *what* is appraised and *how* it is appraised/reported.

### Overall assessment

requires the assessor to write an appraisal in narrative form. Can be unfocused, and depends on managers' writing skills.

### Guided assessment

adds guidelines on attributes/performance elements to be assessed, and how they are to be defined.

### Behavioural incident analysis

compares employee behaviour in critical incidents to classifications of successful/unsuccessful behaviours in such situations. Job-relevant, though complex to develop.

### Grading (or rating scales)

score workers according to the extent/level to which they possess attributes. Graphic scales:  
eg **Poor** — **Fair** — ☒ **Good**

There has been a trend towards more systematic, job relevant techniques such as:

- *Competence assessment*: based on competency definitions and standards developed for the job or occupation
- *Results-based assessment*: measuring performance against specific objectives and targets (eg MBO, performance management)

### Traditional performance appraisal:

- Appraisal by the worker's immediate superior
  - ☐ + First-hand knowledge
  - ☐ + Authority to act
  - ☐ - Perceived as top-down
  - ☐ - May damage working relationship

### Alternative or multi-source feedback

1

*Self appraisal* (by the appraisee)

- ☐ + Removes judgement, fosters self-insight
- ☐ - Inevitably subjective

2

*Upward appraisal* (by subordinates)

- ☐ + Meaningful feedback on management style
- ☐ - Inevitably defensive

3

*Peer and/or customer appraisal*

- ☐ + Meaningful feedback on internal/external customer care
- ☐ - Peer feedback may be defensive

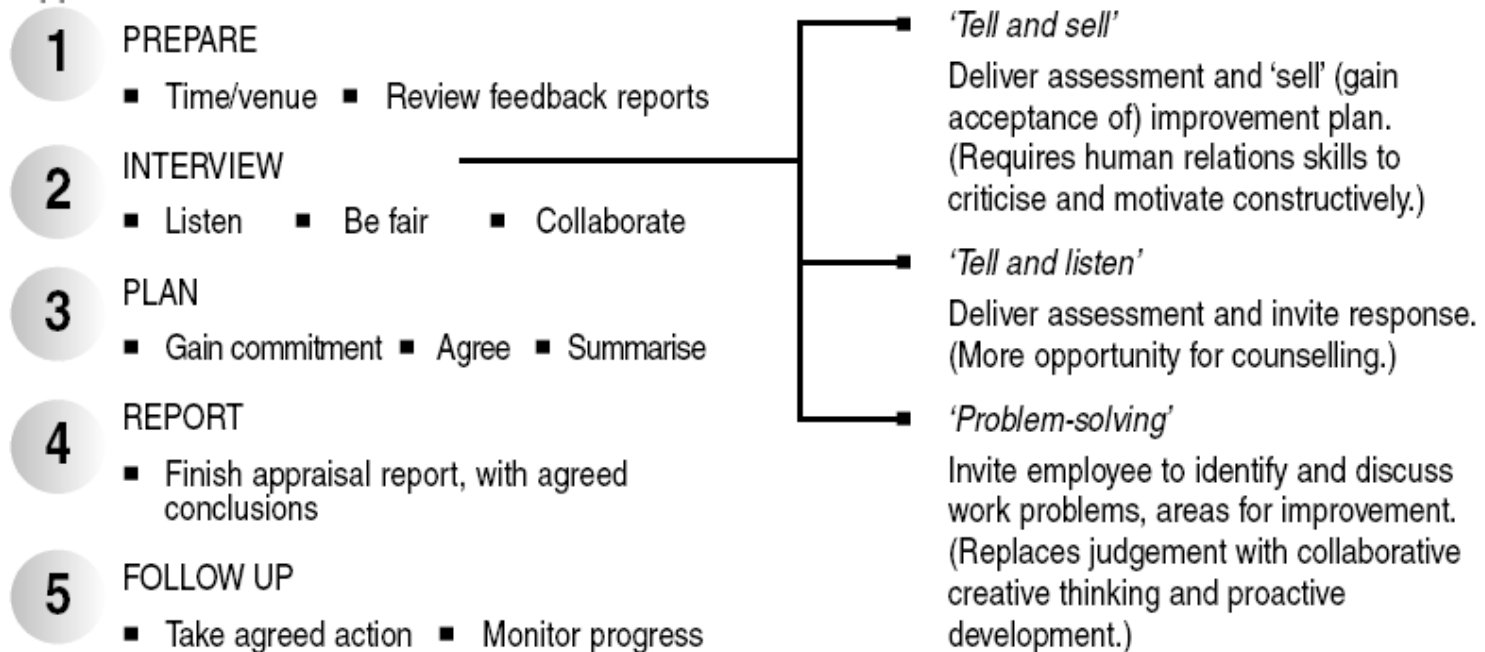
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*360° FEEDBACK* (any or all of above)

- ☐ + Well rounded picture of performance

## Appraisal interviews

(Maier)





Common problems with appraisal (or the way it is managed) include the following.

- Appraisal = confrontation
- Appraisal = judgement
- Appraisal = chat
- Appraisal = bureaucracy
- Appraisal = unfinished business
- Appraisal = annual event

Used for showdown, 'clearing the air': no developmental outcomes

Defensive on both sides; awkward negative feedback; suspicion of bias

No clear purpose or objectives; waste of time; not taken seriously

Regarded as a form-filling exercise: no positive outcomes expected

Used to deal with the most recent or on-going issues only

'In the current climate, to review performance once a year is ludicrously relaxed and undisciplined. Most targets ... become irrelevant and out of date within months or even weeks.'

(Lockett)

Hence the emergence of a performance management approach.

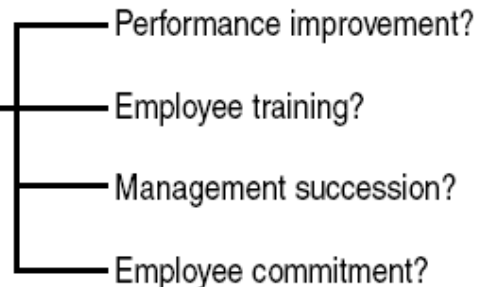
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Is appraisal perceived as  
fair, relevant and important?

Monitor appraiser/appraisee  
attitudes, using surveys, feedback  
forms, interviews

2

Has appraisal been  
effective in achieving



Monitor individual/unit results

Monitor training provision and  
outcomes

Monitor promotions, succession  
plans

Monitor HR indicators such as staff  
turnover, absenteeism, discipline

3

Is appraisal an efficient,  
cost-effective use of  
managerial time/effort?

Cost-benefit analysis (NB  
Qualitative + quantitative benefits)